Chapter 2: Individual Taxpayer Issues

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Please note. Corrections were made to this workbook through January of 2019. No subsequent modifications were made. For clarification about acronyms used throughout this chapter, see the Acronym Glossary at the end of the Index.

For your convenience, in-text website links are also provided as short URLs. Anywhere you see **uofi.tax/xxx**, the link points to the address immediately following in brackets.

About the Author

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Other chapter contributors and reviewers are listed at the front of this volume.

CYBERCURRENCY

Cybercurrency (or cryptocurrency) is virtual or digital currency that functions as a medium of exchange, unit of account, and/or a store of value.[1] In some environments, it acts like "real" currency, except cybercurrency does not have legal tender status in any jurisdiction. The terms cybercurrency and virtual currency are used synonymously throughout this section.

Cybercurrency can be digitally traded between users and exchanged into U.S. dollars and other real or virtual currencies[2] or exchanged for goods and services.[3] For example, retailers including Expedia.com, Microsoft, Overstock.com, and Dish Network accept payment in cybercurrency.[4]

There are thousands of types of cybercurrency. Popular examples include Bitcoin, Ripple, Ethereum, and Litecoin.[5]

Note. Virtual currency is a general term for all forms of intangible money. Cryptocurrency is a specific type of virtual currency characterized by privacy, decentralization, security, and encryption.[6]

To establish an account for cybercurrency, users make a deposit into a digital wallet from a bank account or credit/debit card.[7] Once the account is funded, traditional currency can be exchanged for cybercurrency.[8]

Note. The terms "digital wallet" and "virtual wallet" are used synonymously in this chapter.

The total value of all outstanding cybercurrency offerings approached $1 trillion as of early 2018.[9] With the high value and anonymous nature of virtual currency, the IRS has taken notice and is providing guidance for miners (discussed later), investors, merchants, and spenders of cybercurrency. However, many taxpayers and tax professionals are still uncertain as to how to treat cybercurrency.

TAX TREATMENT[10]

The IRS issued Notice 2014-21 to provide guidance on some basic tax principles concerning virtual currency. The notice establishes that **virtual currency is treated as property.** As property, the tax treatment depends on the manner in which the holder uses the cybercurrency.

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1. IRS Notice 2014-21, 2014-16 IRB 938.
2. Ibid.
3. *Cryptocurrency and taxes.* Smalley, Craig W. Apr. 20, 2017. The Tax Adviser. [www.thetaxadviser.com/newsletters/2017/apr/cryptocurrency-taxes.html] Accessed on Mar. 28, 2018.
4. *13 Major Retailers and Services That Accept Bitcoin.* Moreau, Elise. Mar. 7, 2018. Lifewire. [www.lifewire.com/big-sites-that-accept-bitcoin-payments-3485965] Accessed on Mar. 28, 2018.
5. *List of cryptocurrencies.* Wikipedia. [en.wikipedia.org/wiki/List_of_cryptocurrencies] Accessed on Mar. 28, 2018.
6. *Cryptocurrency Vs Digital Currency – How Virtual Money Works?* Bitcoin Exchange Guide. [bitcoinexchangeguide.com/cryptocurrency-vs-digital-currency/] Accessed on Apr. 2, 2018.
7. *Accepted credit/debit cards.* Coinmama. [support.coinmama.com/hc/en-us/articles/212412145-Accepted-credit-debit-cards] Accessed on Apr. 2, 2018; *How to Buy Bitcoin.* CEX.IO. [cex.io/buy-bitcoins] Accessed on Apr. 2, 2018.
8. *What is bitcoin? Here's everything you need to know.* Jaffe, Justin. Feb. 12, 2018. Cnet. [www.cnet.com/how-to/what-is-bitcoin/] Accessed on Mar. 12, 2018.
9. *Want to Mine Ripple? Think Again.* Caplinger, Dan. Jan. 16, 2018. The Motley Fool. [www.fool.com/investing/2018/01/16/want-to-mine-ripple-think-again.aspx] Accessed on Mar. 12, 2018.
10. IRS Notice 2014-21, 2014-16 IRB 938.

Personal Use

Because it is property, cybercurrency held for personal purposes, pleasure, or investment is a capital asset.[11] The taxpayer has a capital gain on cybercurrency if the fair market value (FMV) of the property or cash received exceeds the adjusted basis of the cybercurrency exchanged. The taxpayer has a capital loss on cybercurrency if the basis of the cybercurrency exchanged is greater than the FMV of the property or cash received. A loss from the sale or exchange of personal-use property is **not deductible.**

Example 1. Bruno paid $5,000 for the Ripple he had in his digital wallet. The value of his Ripple declined to $3,000, and Bruno uses the Ripple to purchase a camera with an FMV of $3,000. He incurred a $2,000 nondeductible capital loss.

A taxpayer who receives cybercurrency as payment for goods or services must include the FMV of the cybercurrency in their gross income. The FMV is measured in U.S. dollars as of the date the cybercurrency is credited to the taxpayer's digital wallet. The taxpayer must establish FMV using a reasonable manner that is consistently applied.

Note. There are a number of websites that publish current and historical values for various cybercurrencies that taxpayers can use to calculate basis. One popular website is **coinmarketcap.com.**

Recordkeeping can be tedious because cybercurrency is maintained in fractional shares. For example, the smallest denomination of bitcoin is one hundred millionth of a share.[12] Tax preparers should obtain documentation on all virtual currency transactions such as printouts of virtual wallets, purchases, and exchanges to ensure proper recordkeeping.[13]

Example 2. Iris purchases a bitcoin (BTC) to use in lieu of cash in her hobby of taking wildlife photographs. She maintains the following ledger.

Date	Transaction	Amount	Fee	BTC Used	BTC Balance
1/14/17	Fund Coinbase account	$820	$12		0
1/14/17	Purchase 1 BTC	($808)			1.00000000
3/5/17	Purchase hotel room expedia.com (1 BTC = $1,267)	($200)		0.15785320 ($200 ÷ $1,267)	0.84214680
2/11/18	Purchase camera lens Overstock.com (1 BTC = $8,130)	($175)		0.02152522 ($175 ÷ $8,130)	0.82062158

Iris calculates her gain as follows.

Description	Acquisition Date	Sale/Disposal Date	Proceeds	Basis	Gain/(Loss)
2017 short-term capital gain					
0.15785320 BTC	1/14/17	3/5/17	$200	$129.44 (0.15785320 BTC × $820 basis)	$ 70.56
2018 long-term capital gain					
0.02152522 BTC	1/14/17	2/11/18	$175	$17.65 (0.02152522 BTC × $820 basis)	$157.35

11. See IRS Pub. 544, *Sales and Other Dispositions of Assets.*

12. *Satoshi.* Investopedia. [www.investopedia.com/terms/s/satoshi.asp] Accessed on Apr. 2, 2018.

13. *Documenting Virtual Currency Transactions.* Adams, Edwards W. and Sumutka, Alan R. Jan. 1, 2018. Journal of Accountancy. [www.journalofaccountancy.com/issues/2018/jan/documenting-virtual-currency-transactions.html] Accessed on Feb. 28, 2018.

Note. A taxpayer who purchases goods or services using cybercurrency may owe state sales or use tax.[14]

Guidance needed. In response to IRS Notice 2014-21, the American Bar Association Section of Taxation and the American Institute of Certified Public Accountants (AICPA) both recommended the IRS institute a de minimis exception for the value that needs to be reported and guidance on recordkeeping to reduce administrative burden.[15] The AICPA looks to the IRC §988(e)(2) exclusion of up to $200 per transaction for foreign currency exchange rate gain as a model. As of the date of publication, the IRS has not issued any additional guidance.

In the event that regulations or other guidance are issued too late to be included in this workbook, coverage will be provided in the form of a supplement, which can be downloaded at **uofi.tax/supplement**.

Investors

Investors acquire cybercurrency through buying, selling, and storing virtual currency on a cybercurrency exchange, such as Coinbase.[16] Gains and losses on cybercurrency are treated as property and generate capital gains or losses. The investor's holding period determines whether such gain or losses are short- or long-term. The holding period starts the day after the cybercurrency is acquired and ends on the date of sale or disposal.[17] Long-term capital gains are gains from the sale or exchange of a capital asset held for more than one year[18] and they receive beneficial tax treatment under IRC §1(h). Short-term gains are gains on the sale or exchange of a capital asset held for less than one year[19] and they do not receive beneficial tax treatment. Net capital losses on investment property are generally limited to $3,000 per year with any unused loss carried forward to the next year.[20]

The IRS has not issued guidance on identifying the basis for cybercurrency. Often, cybercurrency is acquired over time in fractional units. It is challenging to determine out of which lot a fraction of a unit of cybercurrency was sold unless the seller maintains precise inventory records. Specific identification requires detailed recordkeeping to track each specific lot, and current technology may not be able to track exactly which unit of cybercurrency is being exchanged in a particular transaction.[21]

14. *The Basics of Cryptocurrencies And Taxes.* Cryptocurrency Facts. [cryptocurrencyfacts.com/the-basics-of-cryptocurrencies-and-taxes/] Accessed on Apr. 4, 2018.

15. *Comments on Notice 2014-21: Virtual Currency Guidance.* Jun. 10, 2016. AICPA. [www.aicpa.org/advocacy/tax/downloadabledocuments/aicpa-comment-letter-on-notice-2014-21-virtual-currency-6-10-16.pdf] Accessed on Mar. 15, 2018; *Comments on Notice 2014-21.* Mar. 24, 2015. American Bar Association Section of Taxation. [apps.americanbar.org/dch/thedl.cfm?filename=/TX334600/sitesofinterest_files/BitcoinComments.pdf] Accessed on Mar. 15, 2018.

16. *What is bitcoin? Here's everything you need to know.* Jaffe, Justin. Feb. 12, 2018. Cnet. [www.cnet.com/how-to/what-is-bitcoin/] Accessed on Mar. 12, 2018.

17. IRC §1223; IRS Pub. 544, *Sales and Other Dispositions of Assets*; *Counting Cryptocurrency Gains And Losses Without Running Afoul Of IRS Rules.* Bergman, Adam. Jan. 12, 2018. Forbes. [www.forbes.com/sites/greatspeculations/2018/01/12/counting-cryptocurrency-gains-and-losses-without-running-afoul-of-irs-rules/#30e1bae01a61] Accessed on Apr. 4, 2018.

18. IRC §1222.

19. Ibid.

20. IRC §1211.

21. Richman, Nathan. (2018, Mar. 5). Virtual Currencies Raise Difficult Inventory Accounting Questions. *Tax Notes Today.*

Guidance needed. The American Bar Association Section of Taxation and the AICPA requested guidance from the IRS regarding the permissibility of using methods such as cost averaging, last-in, first-out (LIFO) and first-in, first-out (FIFO) to calculate gains and losses.[22] Absent any regulation from the IRS, the specific identification method is required.[23]

In the event that regulations or other guidance are issued too late to be included in this workbook, coverage will be provided in the form of a supplement, which can be downloaded at **uofi.tax/supplement**.

Gains and losses on the sale, transfer, or other disposition of cybercurrency should be reported on Form 8949, *Sales and Other Dispositions of Capital Assets.*[24] Cybercurrency that is a capital asset for the taxpayer is taxed at capital gains rates.

Example 3. Hazel opens an account funded with U.S. dollars with the intention of making a profit. On February 5, 2017, Hazel purchases 10 BTCs for $7,560 each. On February 20, 2018, she sells seven of her BTCs for $11,958 each. Hazel's gain of $30,786 (($11,958 sales price − $7,560 basis) × 7) is a long-term capital gain because she held the cybercurrency as investment property for longer than one year. She reports this gain on her 2018 Form 8949.

Traders

Traders approach trading investment property as a full-time business rather than as a hobby and generally receive their primary income from trading activities. Their trades are frequent, regular, continuous, and substantial. They trade solely for their own accounts.[25] The IRS typically considers the following factors when determining whether a taxpayer is deemed a trader or an investor.[26]

- The length of the holding period for securities bought and sold
- The frequency and dollar amount of trades made during the year
- The extent to which the taxpayer pursues the activity to produce income for a livelihood
- The amount of time the taxpayer devotes to trading activities

Traders can use the capital gain rates unless they make a mark-to-market (MTM) election.[27] Traders who make an MTM election must recognize gains and losses for each tax year based on increases and decreases in the FMV of their holdings.[28] Losses are ordinary rather than capital, and there is no $3,000 annual limitation.[29]

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22. *Comments on Notice 2014-21: Virtual Currency Guidance.* Jun. 10, 2016. AICPA. [www.aicpa.org/advocacy/tax/downloadabledocuments/aicpa-comment-letter-on-notice-2014-21-virtual-currency-6-10-16.pdf] Accessed on Mar. 15, 2018; *Comments on Notice 2014-21.* Mar. 24, 2015. American Bar Association Section of Taxation. [apps.americanbar.org/dch/thedl.cfm?filename=/TX334600/sitesofinterest_files/BitcoinComments.pdf] Accessed on Mar. 15, 2018.
23. *Comments on Notice 2014-21: Virtual Currency Guidance.* Jun. 10, 2016. AICPA. [www.aicpa.org/advocacy/tax/downloadabledocuments/aicpa-comment-letter-on-notice-2014-21-virtual-currency-6-10-16.pdf] Accessed on Mar. 15, 2018.
24. Instructions for Form 8949.
25. See, e.g., *Endicott v. Comm'r,* TC Memo 2013-199 (Aug. 28, 2013).
26. IRS Pub. 550, *Investment Income and Expense.*
27. Ibid.
28. IRC §475(f).
29. IRC §475(d)(3).

A "securities trader" is not subject to self-employment (SE) tax from selling securities.[30] However, cybercurrency does not meet the definition of a security under IRC §475(c)(2). The IRS has not addressed cybercurrency trades. It is undetermined whether traders of cybercurrency are subject to SE tax.[31]

Caution. Government agencies are not in agreement on how to classify cybercurrency. The IRS considers cybercurrency to be property, whereas the Securities and Exchange Commission (SEC) considers cybercurrency to be a security.[32] As such, the treatment of cybercurrency for SE tax and other applications is uncertain depending on which interpretation of cybercurrency is used.

Note. For more information about traders and the MTM election, see the 2017 *University of Illinois Federal Tax Workbook,* Volume B, Chapter 3: Small Business Issues.

Like-Kind Exchange. Some traders of cybercurrency have treated the exchange of one cybercurrency for another as a like-kind exchange of property. This treatment deferred any potential gain until the cybercurrency was actually sold out of the cybercurrency market[33] for cash, products, or services. With the passage of the TCJA, like-kind exchanges are only permitted for real estate transactions.[34] Traders must recognize any gain on appreciation at the time the transaction is completed.

Note. For more information about the rules for like-kind exchanges under the TCJA, see the 2018 *University of Illinois Federal Tax Workbook,* Volume B, Chapter 2: Small Business Issues.

30. *Topic Number 429 — Traders in Securities (Information for Form 1040 Filers).* IRS. Mar. 1, 2018. [www.irs.gov/taxtopics/tc429] Accessed on Apr. 3, 2018.

31. *Should Bitcoin Investors Become 'Traders' for Tax Purposes?* Versprille, Allyson. Jan. 18, 2018. Bloomberg Tax. [www.bna.com/bitcoin-investors-become-n73014474283/] Accessed on Apr. 19, 2018.

32. *Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934: The DAO.* SEC. Jul. 25, 2017. [www.sec.gov/litigation/investreport/34-81207.pdf] Accessed on Apr. 4, 2018.

33. *Dealing with cryptocurrency during tax season.* D'Avolio, Mike. Feb. 2, 2018. Accounting Today. [www.accountingtoday.com/opinion/dealing-with-cryptocurrency-during-tax-season] Accessed on Mar. 7, 2018.

34. PL 115-97, §13303(a); IRC §1031(a).

Miners

New cybercurrency is generated and brought into circulation in a process called **mining.**[35] Miners acquire virtual currency as compensation for processing complex, encrypted mathematical equations.[36] The miner uses computer arrays to solve algorithms to validate virtual currency transactions that are recorded in "blocks" on a public ledger known as "blockchain."[37]

A miner includes the FMV of cybercurrency as of the date of receipt in gross income[38] and reports the income on Schedule C.[39] Income earned by mining activities that constitute a trade or business and that the taxpayer does not undertake as an employee is subject to SE tax.[40]

Example 4. Clementine decides to start mining for BTCs in 2017. On June 1, 2017, she purchased special computer hardware for $1,000 and enhanced video cards for $500. Total depreciation, including bonus depreciation on the equipment, was $900. During 2017, Clementine paid an extra $400 in electricity to run her computer for mining and $50 in fees. Her income for the year follows.

Date	Amount (BTC)	BTC Price (U.S. Dollars)	Mining Income Earned
8/3/2017	0.01000546	$ 2,787.48	$ 27.89
8/27/2017	0.01008626	4,315.77	43.53
9/1/2017	0.01021326	4,839.79	49.43
9/3/2017	0.01104540	4,586.52	50.66
9/7/2017	0.01006908	4,378.75	44.09
9/13/2017	0.01025781	3,814.65	39.13
9/15/2017	0.01010110	3,143.22	31.75
9/23/2017	0.01019176	3,739.30	38.11
10/22/2017	0.01013002	5,994.07	60.72
10/25/2017	0.01033337	5,744.50	59.36
10/31/2017	0.01013111	6,111.87	61.92
11/18/2017	0.01011869	7,750.02	78.42
11/23/2017	0.01009504	8,089.12	81.66
11/30/2017	0.01071444	9,817.59	105.19
12/4/2017	0.01000650	11,448.56	114.56
12/8/2017	0.01007151	14,704.85	148.10
12/11/2017	0.01018628	17,179.97	175.00
	0.17375709		$1,209.52

Clementine files the following Schedule C.

35. *Frequently Asked Questions.* Bitcoin. [bitcoin.org/en/faq#how-are-bitcoins-created] Accessed on Mar. 12, 2018.

36. Ibid; *Dealing with cryptocurrency during tax season.* D'Avolio, Mike. Feb. 2, 2018. Accounting Today. [www.accountingtoday.com/opinion/dealing-with-cryptocurrency-during-tax-season] Accessed on Mar. 7, 2018.

37. *Documenting virtual currency transactions.* Adams, Edward W. and Sumutka, Alan. Jan. 1, 2018. Journal of Accountancy. [www.journalofaccountancy.com/issues/2018/jan/documenting-virtual-currency-transactions.html] Accessed on Mar. 15, 2018.

38. IRS Notice 2014-21, 2014-16 IRB 938.

39. Instructions for Schedule C; *Mining for cryptocurrencies and why the IRS may owe you a refund.* Collins, Michael. Oct. 28, 2017. The Crypto Tax Center. [thecryptotaxcenter.com/2017/10/28/mining-for-cryptocurrencies-and-why-the-irs-may-owe-you-a-refund/] Accessed on Apr. 4, 2018.

40. IRS Notice 2014-21, 2014-16 IRB 938.

For Example 4

SCHEDULE C (Form 1040)
Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Business
(Sole Proprietorship)
▶ Go to *www.irs.gov/ScheduleC* for instructions and the latest information.
▶ Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074
2017
Attachment Sequence No. 09

Name of proprietor: Clementine Dell	Social security number (SSN): ***-**-2828
A Principal business or profession, including product or service (see instructions): Bitcoin Mining	B Enter code from instructions ▶ 5 2 2 3 2 0
C Business name. If no separate business name, leave blank.	D Employer ID number (EIN) (see instr.)

E Business address (including suite or room no.) ▶ 21 S. Atoshi Rd
City, town or post office, state, and ZIP code: Chicago, IL 60606

F Accounting method: (1) ☒ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

G Did you "materially participate" in the operation of this business during 2017? If "No," see instructions for limit on losses . ☒ Yes ☐ No

H If you started or acquired this business during 2017, check here . . . ▶ ☒

I Did you make any payments in 2017 that would require you to file Form(s) 1099? (see instructions) . . . ☐ Yes ☒ No

J If "Yes," did you or will you file required Forms 1099? . . . ☐ Yes ☐ No

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . ▶ ☐	1	1,210
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	1,210
4	Cost of goods sold (from line 42)	4	
5	**Gross profit.** Subtract line 4 from line 3	5	1,210
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	**Gross income.** Add lines 5 and 6 . . . ▶	7	1,210

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	
				20	Rent or lease (see instructions):		
10	Commissions and fees	10		a	Vehicles, machinery, and equipment	20a	
11	Contract labor (see instructions)	11		b	Other business property	20b	
12	Depletion	12		21	Repairs and maintenance	21	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	900	22	Supplies (not included in Part III)	22	
				23	Taxes and licenses	23	
				24	Travel, meals, and entertainment:		
14	Employee benefit programs (other than on line 19)	14		a	Travel	24a	
15	Insurance (other than health)	15		b	Deductible meals and entertainment (see instructions)	24b	
16	Interest:			25	Utilities	25	400
a	Mortgage (paid to banks, etc.)	16a		26	Wages (less employment credits)	26	
b	Other	16b		27a	Other expenses (from line 48)	27a	50
17	Legal and professional services	17		b	**Reserved for future use**	27b	

28	**Total expenses** before expenses for business use of home. Add lines 8 through 27a . . . ▶	28	1,350
29	Tentative profit or (loss). Subtract line 28 from line 7	29	(140)
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). **Simplified method filers only:** enter the total square footage of: (a) your home: ______ and (b) the part of your home used for business: ______ . Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30	
31	**Net profit or (loss).** Subtract line 30 from line 29. • If a profit, enter on both **Form 1040, line 12** (or **Form 1040NR, line 13**) and on **Schedule SE, line 2**. (If you checked the box on line 1, see instructions). Estates and trusts, enter on **Form 1041, line 3.** • If a loss, you **must** go to line 32.	31	(140)

32 If you have a loss, check the box that describes your investment in this activity (see instructions).
- If you checked 32a, enter the loss on both **Form 1040, line 12,** (or **Form 1040NR, line 13**) and on **Schedule SE, line 2.** (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on **Form 1041, line 3.**
- If you checked 32b, you **must** attach **Form 6198.** Your loss may be limited.

32a ☒ All investment is at risk.
32b ☐ Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11334P **Schedule C (Form 1040) 2017**

If a miner does not carry on their mining activity to make a profit, the activity may be considered a hobby. The miner cannot use a loss from the activity to offset other income. In determining whether a miner is carrying on the activity for profit, the following factors should be considered.[41]

- The activity is carried on in a businesslike manner.
- The time and effort put into the activity indicate the miner intends to make it profitable.
- The miner depends on the income for their livelihood.
- Losses are due to circumstances beyond the miner's control (or are normal in the start-up phase of the type of business).
- The miner changes methods of operation in an attempt to improve profitability.
- The miner (or their advisors) have the knowledge needed to carry on the activity as a successful business.
- The miner was successful in making a profit in similar activities in the past.
- The activity makes a profit in some years.
- The miner can expect to make a future profit from the appreciation of the assets used in the activity.

Caution. Under the TCJA, miscellaneous itemized deductions subject to the 2% of adjusted gross income limit, including hobby expenses, are not allowed for the 2018 through 2025 tax years.[42] For more information, see the 2018 *University of Illinois Federal Tax Workbook,* Volume A, Chapter 1: New Legislation — Individual Concerns.

Information Reporting and Backup Withholding[43]

Payments made in the course of a trade or business for services performed by independent contractors are subject to information reporting. This includes payments made using cybercurrency. If the aggregate value of the payments to the contractor is $600 or more in a tax year and not reported on Form 1099-K, *Payment Card and Third Party Network Transactions,* the business is required to report the payment to the IRS and the payee on Form 1099-MISC, *Miscellaneous Income,* using the FMV of the cybercurrency as of the date of payment.

Virtual currency payments are subject to backup withholding to the same extent as other payments made in property. A payor must solicit a taxpayer identification number (TIN) from the payee and backup withhold from the payment if they do not obtain a TIN prior to payment or if the payor receives notification from the IRS that backup withholding is required.

Certain reporting requirements apply to third parties that settle payments made in virtual currency on behalf of merchants that accept virtual currency from their customers. A third party that contracts with unrelated merchants to settle payments between merchants and their customers is a third-party settlement organization (TPSO). TPSOs are required to report payments made to a merchant on Form 1099-K if **both** of the following conditions are met for the calendar year.

1. The number of transactions settled for the merchant is **more than 200.**
2. The gross amount of payments made to the merchant **exceeds $20,000.**

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41. IRS Pub. 535, *Business Expenses.*
42. PL 115-97; IRC §67(g).
43. IRS Notice 2014-21, 2014-16 IRB 938.

To determine if the payment amount exceeds the threshold, the value of cybercurrency is determined using the FMV of the cybercurrency in U.S. dollars on the date of the payment.

Note. Payments made using credit cards or certain other types of payments must be reported on Form 1099-K by the TPSO and are not reported on Form 1099-MISC.[44] For more information about Form 1099-K and third-party information reporting, go to **uofi.tax/18a2x1** [www.irs.gov/tax-professionals/third-party-reporting-information-center-information-documents].

Note. As of the 2017 tax year, some states have lower reporting thresholds than the federal reporting requirements. This may trigger the issuance of Form 1099-K to the taxpayer and reporting to their state's tax collection entity, despite the taxpayer's total dollar amount received or number of transactions for the year being below the federal reporting thresholds.

Wages.[45] Taxpayers who compensate employees for services using cybercurrency must treat the payments in the same manner as cash wages. The FMV of remuneration in cybercurrency paid as wages is subject to federal income tax withholding, Federal Insurance Contributions Act (FICA) tax, and Federal Unemployment Tax Act (FUTA) tax. The FMV is reported on Form W-2, *Wage and Tax Statement.*

IRS ENFORCEMENT[46]

In 2016, the IRS formed a virtual currency investigation team to determine the extent of underreported income from cybercurrency.[47] The IRS examined Forms 8949 filed during 2013, 2014, and 2015 and discovered that only 807, 893, and 802 taxpayers, respectively, reported cybercurrency transactions during that period.

The IRS issued summons seeking the customer records from Coinbase, Inc., the largest platform in the United States for exchanging cybercurrency into U.S. dollars and the fourth largest globally at the end of 2015. The summons requested the identities and transaction records of account holders in any year during 2013 through 2015 to investigate whether taxable gains were properly reported. The court narrowed the scope of the summons to account holders with at least the equivalent of $20,000 in any one transaction type (buy, sell, send, or receive). The summons does not include any accounts for which Coinbase filed Forms 1099-K. The reduced scope of the IRS summons affects approximately 13,000 Coinbase customers.[48] The IRS can take action to obtain information in order to enforce compliance of tax reporting and tax payments involving cybercurrency.

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44. Instructions for Form 1099-MISC (2018).

45. Ibid.

46. *U.S. v. Coinbase, Inc., et al*., No. 17-cv-01431-JSC (N.D. Ca. Nov. 28, 2017).

47. *Documenting Virtual Currency Transactions.* Adams, Edwards W. and Sumutka, Alan R. Jan. 1, 2018. Journal of Accountancy. [www.journalofaccountancy.com/issues/2018/jan/documenting-virtual-currency-transactions.html] Accessed on Feb. 28, 2018.

48. *IRS Notification.* Feb. 23, 2018. Coinbase. [support.coinbase.com/customer/portal/articles/2924446] Accessed on Mar. 14, 2018.

NET OPERATING LOSSES UNDER TCJA

The Tax Cuts and Jobs Act (TCJA) made important changes to net operating losses (NOLs) for individuals.[49] An individual generates an NOL when allowable deductions exceed gross income.[50] Prior to the enactment of the TCJA, an individual with an NOL in excess of income was entitled to a deduction of 100% of the loss.[51] Additionally, an NOL could generally be carried back two years and carried forward 20 years to offset any taxable income.[52]

For years **beginning** after December 31, 2017, the deduction for an NOL is generally limited to 80% of taxable income.[53] For years **ending** after December 31, 2017, the carryback provision is permanently eliminated for most taxpayers and the TCJA allows for an indefinite carryover period. [54]

> **Note.** The time period during which most TCJA provisions are in effect, which begins with the 2018 tax year and concludes at the end of the 2025 tax year, is referred to as the "TCJA period" in this chapter.

TAXABLE INCOME LIMITATION

An NOL generated in years **beginning** after December 31, 2017, is limited to 80% of taxable income (calculated without regard to the NOL deduction) in the year to which the loss is carried.[55] Generally, NOLs are deducted in the earliest year to which the loss can be carried. NOLs from years prior to 2018 are deducted against 100% of taxable income in the carryover year **before** any of the NOLs generated in years ending after 2017 (which are limited to 80% of taxable income).[56]

Example 5. Frederick owns a landscaping business and reports income and loss from the business on Schedule C, *Profit or Loss From Business.* His first year of operation was 2017 and he generated an NOL of \$15,000. In 2018, Frederick has taxable income of \$10,000. Because his NOL of \$15,000 originated prior to 2018, Frederick can deduct \$10,000 of the 2017 NOL against his 2018 taxable income. The 2017 NOL is not subject to the 80% limitation. The remaining \$5,000 of NOL (\$15,000 − \$10,000) is carried forward to 2019.

For the year ending December 31, 2019, Frederick's business generates an NOL of \$7,000. In 2020, he has taxable income of \$8,000. The NOLs are applied in the following order.

2020 taxable income	\$8,000
2017 NOL carryover (100% allowed)	(5,000)
2019 NOL: original amount \$7,000	
Limited to \$6,400 (80% × \$8,000 taxable income)	(3,000)
Remaining taxable income	\$ 0

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49. TCJA §13302; *Joint Explanatory Statement of the Committee of Conference.* [docs.house.gov/billsthisweek/20171218/Joint%20Explanatory%20Statement.pdf] Accessed on Apr. 23, 2018.

50. IRC §172(c).

51. IRC §172(a) prior to amendment by the TCJA.

52. IRC §172(b) prior to amendment by the TCJA.

53. TCJA §13302(e)(1).

54. TCJA §13302(e)(2); IRC §172(b) as amended by the TCJA; The TCJA provides a 2-year carryback for certain losses incurred in farming and for property and casualty insurance companies; *Joint Explanatory Statement of the Committee of Conference.* [docs.house.gov/billsthisweek/20171218/Joint%20Explanatory%20Statement.pdf] Accessed on Apr. 23, 2018.

55. IRC §172(a).

56. IRC §172(b)(2).

The 80% NOL limitation does not affect the calculation. This is because after deducting the 2017 NOL, there is only $3,000 of taxable income remaining, which is less than the $6,400 limitation for the 2019 NOL. Frederick used all of his 2017 NOL. The remaining 2019 NOL of $4,000 ($7,000 − $3,000) is carried forward to 2021.

Note. The 2018 *University of Illinois Federal Tax Workbook*, Volume B, Chapter 1: New Legislation — Business Concerns, addresses TCJA changes affecting NOLs for business taxpayers.

EXCESS BUSINESS LOSSES UNDER TCJA[57]

Under the TCJA, **excess business losses** of a taxpayer other than a corporation are not allowed during the TCJA period. An excess business loss is the excess of aggregate deductions attributable to the taxpayer's trades or businesses over the sum of the aggregate gross income or gain from all their trades or businesses plus a 2018 threshold amount of $250,000 ($500,000 for married filing joint (MFJ) taxpayers).[58] The threshold amount is adjusted annually for inflation.[59]

During the TCJA period, excess business losses above the threshold are carried forward and treated as part of the taxpayer's NOL carryforward, subject to the 80% of taxable income limitation (discussed previously).

Example 6. Sandra is single and runs a floral business. She reported gross income of $300,000 and $650,000 of expenses, for a net business loss of $350,000 on her 2018 Schedule C. Sandra's excess business loss is $100,000 ($650,000 expenses – ($300,000 business income + $250,000 threshold)). The $100,000 excess business loss is considered an NOL, subject to the 80% of taxable income limitation.

Sandra also has interest and capital gains of $300,000, against which she can deduct $250,000 of her business loss. Her adjusted gross income for 2018 is therefore $50,000 ($300,000 – $250,000).

Example 7. Use the same facts as **Example 6,** except Sandra is married to Cole and they file MFJ. Sandra does not have any excess business loss because her net business loss of $350,000 does not exceed the $500,000 threshold for joint filers.

Example 8. Use the same facts as **Example 7,** except Cole owns a motorcycle repair shop. On his 2018 Schedule C, he reported income of $200,000 and expenses of $400,000, for a net business loss of $200,000. Cole and Sandra have combined net business losses of $550,000 ($200,000 + $350,000), which exceeds the MFJ threshold of $500,000 by $50,000. The $50,000 is an excess business loss and is considered an NOL carryforward, subject to the 80% of taxable income limitation.

Example 9. Use the same facts as **Example 7,** except Cole is employed as a mechanic and earns wages of $45,000. Sandra's business expenses of $650,000 do not exceed the couple's combined trade or business income of $300,000 plus the $500,000 threshold for MFJ taxpayers. Therefore, Sandra and Cole do not have an excess business loss. Sandra can use her business losses to offset her interest and capital gains as well as Cole's salary income on their joint return.

57. TCJA §11012; IRC §461(l).

58. IRC §461(l)(3).

59. IRC §461(l)(3)(B).

Guidance needed. Neither the TCJA nor the conference committee report offer a definition of trade or business income. It is assumed that this **does not include W-2 wages,** but further clarification is required.

In the event that regulations or other guidance are issued too late to be included in this workbook, coverage will be provided in the form of a supplement, which can be downloaded at **uofi.tax/supplement**.

Note. The 2018 *University of Illinois Federal Tax Workbook*, Volume B, Chapter 2: Small Business Issues, discusses excess business losses in further detail, including the correlation with the passive activity and excess farm loss rules and the application to partners and S corporation shareholders.

DEDUCTIONS AND CREDITS UNDER TCJA[60]

Personal exemptions are suspended during the TCJA period. The standard deduction is temporarily increased starting in 2018 as shown in the following table.[61]

		Additional Amount Per Individual	
Filing Status	**Standard Deduction**	**Elderly**	**Blind**
MFJ	$24,000	$1,300	$1,300
HoH	18,000	1,600	1,600
Unmarried and not surviving spouse	12,000	1,600	1,600
All other individual taxpayers	12,000	1,300	1,300

The standard deduction amounts in the preceding table will be adjusted for inflation for tax years beginning after 2018.[62]

CHILD TAX CREDIT[63]

Starting in 2018 and throughout the TCJA period, the TCJA increases the child tax credit (CTC) to $2,000 per qualifying child ($1,400 of which is refundable) and introduces a $500 nonrefundable family tax credit for qualifying dependents other than qualifying children. The nonrefundable portion of the CTC can only be claimed up to the amount of the taxpayer's regular tax liability, reduced by the allowable foreign tax credit, plus the taxpayer's alternative minimum tax (AMT) liability.[64]

60. TCJA §§11021, 11022, and 11041; *Joint Explanatory Statement of the Committee of Conference.* [docs.house.gov/billsthisweek/20171218/Joint%20Explanatory%20Statement.pdf] Accessed on May 4, 2018.

61. IRC §§63(c)(2) and (7).

62. IRC §63(c)(7)(B).

63. IRC §24.

64. IRC §26(a).

The threshold amount for applying the phaseout for the CTC is increased to $400,000 (previously $110,000) for MFJ taxpayers and $200,000 for all other returns (previously $75,000 for single taxpayers and $55,000 for married filing separately (MFS) taxpayers).[65] For this purpose, the threshold amount is modified adjusted gross income (MAGI). This is adjusted gross income (AGI) and adding back the foreign earned income exclusion along with exclusions of income from Puerto Rico, Guam, American Samoa, or the Northern Mariana Islands.[66] These threshold amounts **are not indexed for inflation.**[67]

Qualifying Child

A **qualifying child** for the CTC is one who has not attained age 17 and is either the taxpayer's:[68]

- Child or descendant of such child; or
- Brother, sister, stepbrother, stepsister, or descendent of any such relative.

Additionally, a qualifying child must be a citizen or national of the United States or a resident of the United States or a contiguous country.[69] Prior to the passage of the TCJA, an individual could claim the CTC on a qualifying child by including the child's name and taxpayer identification number (social security number (SSN), individual taxpayer identification number (ITIN), or adoption identification number). Under the TCJA, a qualifying child **must have an SSN that is included on the tax return.**[70] The SSN must be issued by the Social Security Administration to a citizen or legal alien of the United States before the due date of the return.

Determining the CTC

The CTC is reduced by $50 for every $1,000 (or fraction thereof) that a taxpayer's MAGI exceeds the threshold amount.[71] Consequently, taxpayers can receive either a full, zero, or partial CTC.

Full CTC. As mentioned earlier, the full amount of the CTC is allowed for taxpayers with MAGI **equal to or less than**:

- $400,000 (MFJ taxpayers), or
- $200,000 (all other filers).

This situation is illustrated in the following examples.

Example 10. Madge is a single mom to her 11-year old son, Cooper, and she qualifies for HoH status. During 2017, she earns wages of $40,000. Madge takes the standard deduction and has a net tax liability of $1,715.

MAGI	$40,000
Less: standard deduction	(9,350)
Less: personal exemptions	(8,100)
Taxable income	$22,550
Regular tax: [a] (($22,550 − $13,350) × 15%) + $1,335	$ 2,715
Less: child tax credit	(1,000)
Total tax	$ 1,715

[a] See tax tables in the appendix at the end of the chapter.

65. IRC §§24(b)(2) and (h)(3).

66. IRC §24(b)(1).

67. IRC §24(h)(3).

68. IRC §§152(c) and 24(c).

69. IRC §152(b)(3).

70. IRC §24(h)(7).

71. IRC §24(b).

Example 11. Use the same facts as **Example 10.** During 2018, Madge again earns wages of $40,000 and takes the standard deduction. Her net tax liability for 2018 is $368.

MAGI	$40,000
Less: standard deduction	(18,000)
Taxable income	$22,000
Regular tax:[a] (($22,000 − $13,600) × 12%) + $1,360	$ 2,368
Less: child tax credit	(2,000)
Tax after credits	$ 368

[a] See tax tables in the appendix at the end of the chapter.

Madge pays $1,347 ($1,715 – $368) less income tax in 2018 than in 2017.

Example 12. Stella and Brent have full custody of their 5-year old grandson, Carter, who lives with them. In 2017, Stella and Brent earned combined wages of $90,000. They take the standard deduction and have net income tax liability of $7,840 as shown on page 2 of the following Form 1040, *U.S. Individual Income Tax Return.*

Form 1040 (2017) Page **2**

	38	Amount from line 37 (adjusted gross income)			38	90,000
Tax and Credits	39a	Check if: ☐ **You** were born before January 2, 1953, ☐ Blind. ☐ **Spouse** was born before January 2, 1953, ☐ Blind. **Total boxes checked ▶ 39a** ☐				
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐				
Standard Deduction for— • People who check any box on line 39a or 39b **or** who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, $6,350 Married filing jointly or Qualifying widow(er), $12,700 Head of household, $9,350	40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)			40	12,700
	41	Subtract line 40 from line 38			41	77,300
	42	**Exemptions.** If line 38 is $156,900 or less, multiply $4,050 by the number on line 6d. Otherwise, see instructions			42	12,150
	43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-			43	65,150
	44	**Tax** (see instructions). Check if any from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972 **c** ☐			44	8,840
	45	**Alternative minimum tax** (see instructions). Attach Form 6251			45	
	46	Excess advance premium tax credit repayment. Attach Form 8962			46	
	47	Add lines 44, 45, and 46 ▶			47	8,840
	48	Foreign tax credit. Attach Form 1116 if required	48			
	49	Credit for child and dependent care expenses. Attach Form 2441	49			
	50	Education credits from Form 8863, line 19	50			
	51	Retirement savings contributions credit. Attach Form 8880	51			
	52	Child tax credit. Attach Schedule 8812, if required	52	1,000		
	53	Residential energy credits. Attach Form 5695	53			
	54	Other credits from Form: **a** ☐ 3800 **b** ☐ 8801 **c** ☐	54			
	55	Add lines 48 through 54. These are your **total credits**			55	1,000
	56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ▶			56	7,840
Other Taxes	57	Self-employment tax. Attach Schedule SE			57	
	58	Unreported social security and Medicare tax from Form: **a** ☐ 4137 **b** ☐ 8919			58	
	59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required			59	
	60a	Household employment taxes from Schedule H			60a	
	b	First-time homebuyer credit repayment. Attach Form 5405 if required			60b	
	61	Health care: individual responsibility (see instructions) Full-year coverage ☐			61	
	62	Taxes from: **a** ☐ Form 8959 **b** ☐ Form 8960 **c** ☐ Instructions; enter code(s)			62	
	63	Add lines 56 through 62. This is your **total tax** ▶			63	7,840
	64	Federal income tax withheld from Forms W-2 and 1099	64			

Example 13. Use the same facts as **Example 12.** In 2018, Stella and Brent again earn $90,000. Their net tax liability for 2018 is $5,539.

MAGI	$90,000
Less: standard deduction	(24,000)
Taxable income	$66,000
Regular tax: [a] (($66,000 − $19,050) × 12%) + $1,905	$7,539
Less: child tax credit	(2,000)
Tax after credits	$ 5,539

[a] See tax tables in the appendix at the end of the chapter.

Stella and Brent pay $2,301 ($7,840 – $5,539) less in income tax in 2018 than in 2017.

Zero CTC. No CTC is allowed for taxpayers with MAGI that **exceeds**:

- $439,000 (MFJ taxpayers), or
- $239,000 (all other filers).

Partial CTC. A partial CTC is allowed for taxpayers with MAGI falling within the following ranges.

- Over $400,000 but less than $439,001 (MFJ taxpayers)
- Over $200,000 but less than $239,001 (all other filers)

This situation is illustrated in the following example.

Example 14. Bernie and Rachel Sands file jointly. In 2018, the Sands have MAGI of $439,500. They are aware that the MAGI thresholds were raised by the TCJA and ask their tax preparer Tom if they can claim the CTC for their qualifying daughter on their 2018 tax return.

Tom tells the Sands that they do not qualify for the CTC. MFJ filers whose MAGI exceeds $400,000 can still qualify for the CTC, but the credit is reduced by $50 for every $1,000 (or fraction thereof) that their MAGI exceeds $400,000.

Had their MAGI been $439,000 they would still have received a CTC of $50 ($2,000 – ($439,000 – $400,000) ÷ $1,000 × $50). However, because their MAGI is $500 higher, and this is a fraction of the next $1,000, they lose the remaining partial CTC of $50.

Example 15. Assume the same facts as **Example 14,** except Bernie and Rachel have MAGI of $425,000 for 2018. They receive a partial CTC of $750 ($2,000 – (($425,000 – $400,000) ÷ $1,000 × $50)).

Note. The CTC is allowed for each qualifying child of the taxpayer and likewise the MAGI limitation applies to the CTC for each qualifying child of the taxpayer.[72] Thus, the CTC reduction is $50 multiplied by the number of qualifying children, for each $1,000 that MAGI exceeds the threshold amount.

72. IRC §24(b).

Refundable CTC

During the TCJA period, part of the CTC previously determined may be refundable subject to a maximum of $1,400 per qualifying child.[73] This upper limit will be adjusted for inflation for tax years after 2018.[74] Determining the refundable portion of the CTC depends on the number of qualifying children that the taxpayer claims.[75] Taxpayers claiming the foreign earned income exclusion **cannot** claim the refundable CTC.[76]

Less than Three Qualifying Children. The maximum refundable CTC a taxpayer with less than three qualifying children can claim is **the least** of:

1. Allowable CTC multiplied by the number of qualifying children,[77]
2. $1,400 multiplied by the number of qualifying children,[78] **or**
3. 15% of the amount of the taxpayer's earned income that exceeds $2,500.[79]

Example 16. Bill and Cindy Warner file jointly and have two qualifying children. In 2018, the Warners have MAGI of $30,000 which is composed of Bill's taxable wages of $20,000, Cindy's taxable wages of $9,000, and a $1,000 short-term capital gain. Their taxable income is $6,000 ($30,000 MAGI – $24,000 standard deduction) and their 2018 tax before credits is $600 ($6,000 × 10%).

The Warners have a 2018 CTC of $4,000 ($2,000 × 2 qualifying children). The portion of the $4,000 CTC that is refundable is $2,800. This is **the least** of the following amounts.

- $2,000 CTC × 2 qualifying children = $4,000
- $1,400 × 2 qualifying children = **$2,800**
- ($29,000 earned income – $2,500) × 15% = $3,975

Therefore, the Warners use $600 of the $1,200 nonrefundable portion of the CTC ($4,000 total CTC – $2,800 refundable CTC) to reduce their $600 tax liability to zero and claim a refund of the $2,800 refundable portion of the CTC. The unused $600 ($1,200 – $600) nonrefundable CTC is lost.

Three or More Qualifying Children. The maximum refundable CTC a taxpayer with three or more qualifying children can claim is **the least** of:

1. Allowable CTC multiplied by the number of qualifying children,[80]
2. $1,400 multiplied by the number of qualifying children,[81] **or**
3. The **greater** of:[82]
    - **a.** Social security taxes for the tax year less earned income credit (EIC), **or**
    - **b.** Earned income less $2,500 multiplied by 15%.

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73. IRC §24(h)(5).
74. Ibid.
75. IRC §§24(a) and (d)(1).
76. IRC §24(d)(3).
77. IRC §24(h)(2).
78. IRC §24(h)(5).
79. IRC §§24(d)(1)(B)(i) and 24(h)(6).
80. IRC §24(h)(2).
81. IRC §24(h)(5).
82. IRC §§24(d)(1)(B) and 24(h)(6).

Example 17. Use the same facts as **Example 16,** except the Warners have three qualifying children. Additionally, the Warners have an EIC of $5,236 for 2018.

The Warners' 2018 social security taxes are $2,219 ($29,000 × 7.65%) and they have a 2018 CTC of $6,000 ($2,000 × 3 qualifying children). The portion of the CTC that is refundable is $3,975. This is equal to **the least** of the following amounts.

1. $2,000 CTC × 3 qualifying children = $6,000
2. $1,400 × 3 qualifying children = $4,200
3. The **greater** of:
   a. $2,219 – $5,236 = $0 (limited to zero)
   b. ($29,000 – $2,500) × 15% = **$3,975**

The Warners file Schedule 8812, *Additional Child Tax Credit,* as follows.

For Example 17

SCHEDULE 8812 (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Additional Child Tax Credit

▶ Attach to Form 1040 or Form 1040NR.
▶ Go to *www.irs.gov/Schedule8812* for instructions and the latest information.

1040 / 1040NR / 8812

OMB No. 1545-0074
2018
Attachment Sequence No. **47**

Name(s) shown on return: **Bill and Cindy Warner**
Your social security number: **333-11-3333**

Part I — All Filers

Caution: If you file Form 2555 or 2555-EZ, **stop here;** you cannot claim the additional child tax credit.

1 If you are required to use the worksheet in Pub. 972, enter the amount from line 10 of the Child Tax Credit and Credit for Other Dependents Worksheet in the publication. Otherwise:
1040 filers: Enter the amount from line 8 of your Child Tax Credit and Credit for Other Dependents Worksheet (see the instructions for Form 1040, line 12a).
1040NR filers: Enter the amount from line 8 of your Child Tax Credit and Credit for Other Dependents Worksheet (see the instructions for Form 1040NR, line 49). — **1** — 0

2 Enter the amount from Form 1040, line 12a, or Form 1040NR, line 49 — **2** — 6,000

3 Subtract line 2 from line 1. If zero, **stop here;** you cannot claim this credit — **3** — 6,000

4 Number of qualifying children under 17 with the required social security number: 3 X $1,400. Enter the result. If zero, **stop here;** you cannot claim this credit — **4** — 4,200

TIP: The number of children you use for this line is the same as the number of children you used for line 1 of the Child Tax Credit and Credit for Other Dependents Worksheet.

5 Enter the **smaller** of line 3 or line 4 — **5** — 4,200

6a Earned income (see separate instructions) — **6a** — 29,000

b Nontaxable combat pay (see separate instructions) — **6b** —

7 Is the amount on line 6a more than $2,500?
☐ **No.** Leave line 7 blank and enter -0- on line 8.
☒ **Yes.** Subtract $2,500 from the amount on line 6a. Enter the result — **7** — 26,500

8 Multiply the amount on line 7 by 15% (0.15) and enter the result — **8** — 3,975

Next. On line 4, is the amount $4,200 or more?
☐ **No.** If line 8 is zero, **stop here;** you cannot claim this credit. Otherwise, skip Part II and enter the **smaller** of line 5 or line 8 on line 15.
☒ **Yes.** If line 8 is equal to or more than line 5, skip Part II and enter the amount from line 5 on line 15. Otherwise, go to line 9.

Part II — Certain Filers Who Have Three or More Qualifying Children

9 Withheld social security, Medicare, and Additional Medicare taxes from Form(s) W-2, boxes 4 and 6. If married filing jointly, include your spouse's amounts with yours. If your employer withheld or you paid Additional Medicare Tax or tier 1 RRTA taxes, see separate instructions — **9** — 2,219

10 **1040 filers:** Enter the total of the amounts from Schedule 1 (Form 1040), line 27, and Schedule 4 (Form 1040), line 58, plus any taxes that you identified using code "UT" and entered on Schedule 4 (Form 1040), line 62.
1040NR filers: Enter the total of the amounts from Form 1040NR, lines 27 and 56, plus any taxes that you identified using code "UT" and entered on line 60. — **10** —

11 Add lines 9 and 10 — **11** — 2,219

12 **1040 filers:** Enter the total of the amounts from Form 1040, line 17a, and Schedule 5 (Form 1040), line 72.
1040NR filers: Enter the amount from Form 1040NR, line 67. — **12** — 5,236

13 Subtract line 12 from line 11. If zero or less, enter -0- — **13** — 0

14 Enter the **larger** of line 8 or line 13 — **14** — 3,975

Next, enter the **smaller** of line 5 or line 14 on line 15.

Part III — Additional Child Tax Credit

15 **This is your additional child tax credit** — **15** — 3,975

1040 / 1040NR — *Enter this amount on Form 1040, line 17b, or Form 1040NR, line 64.*

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 59761M **Schedule 8812 (Form 1040) 2018**

Family Tax Credit

Besides the changes to the CTC previously discussed, the TCJA introduced a new family tax credit for qualifying relatives. This credit only applies during the TCJA period and the rules for claiming this credit are contained in a subsection of IRC §24.[83]

Qualifying Relative.[84] A qualifying dependent for purposes of the nonrefundable $500 family tax credit is a qualifying relative under IRC §152 who is **not** a qualifying child. Unlike the CTC, the family tax credit is not permitted for a dependent who is a resident of Canada or Mexico.[85] The qualifying relative must bear one of the following relationships to the taxpayer.[86]

- A child or grandchild
- A sibling or stepsibling
- A father, mother, or ancestor of either
- A stepparent
- A niece or nephew
- An aunt or uncle
- A son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law
- An individual (other than a spouse) who lived with the taxpayer for the tax year and is a member of the taxpayer's household

A qualifying relative who meets one of the relationship tests must also meet the following requirements.

- Have gross income for the year less than the exemption amount ($4,150 for 2018)[87]
- Have more than half of their support provided by the taxpayer during the calendar year
- Not be a qualifying child of the taxpayer or any other taxpayer for the calendar year

Note. For more information on the repeal of personal exemptions, the child tax and family credits, and increased standard deduction, see the 2018 *University of Illinois Federal Tax Workbook,* Volume A, Chapter 1: New Legislation — Individual Concerns.

Example 18. Bobbi and Drake file joint returns and have two children. In 2017, their son, Nate, was 18 years old and their younger son, Jeremy, was 15 years old. Both sons were still in high school. During 2017, Bobbi and Drake earned $150,000 in wages and had $3,000 of interest. They took the standard deduction and had four personal exemptions. Bobbi and Drake owed $22,503 as shown on the following Form 1040, *U.S. Individual Income Tax Return*.

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83. IRC §24(h)(4).

84. IRC §152(d).

85. IRC §24(h)(4)(B).

86. IRC §152(d).

87. IRC §151(d)(5); Rev. Proc. 2017-58, 2017-57 IRB 489; *Child tax credit now higher, more widely available.* Hetherington, Katherine M. Jun. 1, 2018. Journal of Accountancy. [www.journalofaccountancy.com/issues/2018/jun/child-tax-credit.html] Accessed on Aug. 13, 2018.

For Example 18

Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return **2017** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2017, or other tax year beginning , 2017, ending , 20 See separate instructions.

Your first name and initial	Last name	Your social security number
Drake		222 22 2222
If a joint return, spouse's first name and initial	Last name	Spouse's social security number
Bobbi		221 11 2222

Home address (number and street). If you have a P.O. box, see instructions. Apt. no.
▲ Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).

Foreign country name | Foreign province/state/county | Foreign postal code

Presidential Election Campaign
Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse

Filing Status

Check only one box.

1 ☐ Single
2 ☒ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) (see instructions)

Exemptions

6a ☒ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a
b ☒ **Spouse**

Boxes checked on 6a and 6b: 2

c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if child under age 17 qualifying for child tax credit (see instructions)
Nate	222 33 2222	Son	☐
Jeremy	222 44 2222	Son	☒
			☐
			☐

If more than four dependents, see instructions and check here ▶ ☐

No. of children on 6c who:
• lived with you: 2
• did not live with you due to divorce or separation (see instructions):
Dependents on 6c not entered above:

d Total number of exemptions claimed — Add numbers on lines above ▶ 4

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	150,000
8a	**Taxable** interest. Attach Schedule B if required	8a	3,000
b	**Tax-exempt** interest. **Do not** include on line 8a — 8b		
9a	Ordinary dividends. Attach Schedule B if required	9a	
b	Qualified dividends — 9b		
10	Taxable refunds, credits, or offsets of state and local income taxes	10	
11	Alimony received	11	
12	Business income or (loss). Attach Schedule C or C-EZ	12	
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐	13	
14	Other gains or (losses). Attach Form 4797	14	
15a	IRA distributions — 15a — b Taxable amount	15b	
16a	Pensions and annuities — 16a — b Taxable amount	16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
18	Farm income or (loss). Attach Schedule F	18	
19	Unemployment compensation	19	
20a	Social security benefits — 20a — b Taxable amount	20b	
21	Other income. List type and amount	21	
22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶	22	153,000

Adjusted Gross Income

23	Educator expenses	23	
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24	
25	Health savings account deduction. Attach Form 8889	25	
26	Moving expenses. Attach Form 3903	26	
27	Deductible part of self-employment tax. Attach Schedule SE	27	
28	Self-employed SEP, SIMPLE, and qualified plans	28	
29	Self-employed health insurance deduction	29	
30	Penalty on early withdrawal of savings	30	
31a	Alimony paid b Recipient's SSN ▶	31a	
32	IRA deduction	32	
33	Student loan interest deduction	33	
34	Tuition and fees. Attach Form 8917	34	
35	Domestic production activities deduction. Attach Form 8903	35	
36	Add lines 23 through 35	36	
37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶	37	153,000

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2017)

For Example 18

Form 1040 (2017) Page **2**

Tax and Credits	38	Amount from line 37 (adjusted gross income)		38	153,000
	39a	Check if: ☐ **You** were born before January 2, 1953, ☐ Blind. ☐ **Spouse** was born before January 2, 1953, ☐ Blind. **Total boxes checked ▶ 39a** ☐			
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐			
Standard Deduction for— • People who check any box on line 39a or 39b **or** who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, $6,350; Married filing jointly or Qualifying widow(er), $12,700; Head of household, $9,350	40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)		40	12,700
	41	Subtract line 40 from line 38		41	140,300
	42	**Exemptions.** If line 38 is $156,900 or less, multiply $4,050 by the number on line 6d. Otherwise, see instructions		42	16,200
	43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-		43	124,100
	44	**Tax** (see instructions). Check if any from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972 **c** ☐		44	22,503
	45	**Alternative minimum tax** (see instructions). Attach Form 6251		45	
	46	Excess advance premium tax credit repayment. Attach Form 8962		46	
	47	Add lines 44, 45, and 46 ▶		47	22,503
	48	Foreign tax credit. Attach Form 1116 if required	48		
	49	Credit for child and dependent care expenses. Attach Form 2441	49		
	50	Education credits from Form 8863, line 19	50		
	51	Retirement savings contributions credit. Attach Form 8880	51		
	52	Child tax credit. Attach Schedule 8812, if required	52		
	53	Residential energy credits. Attach Form 5695	53		
	54	Other credits from Form: **a** ☐ 3800 **b** ☐ 8801 **c** ☐	54		
	55	Add lines 48 through 54. These are your **total credits**		55	
	56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ▶		56	22,503
Other Taxes	57	Self-employment tax. Attach Schedule SE		57	
	58	Unreported social security and Medicare tax from Form: **a** ☐ 4137 **b** ☐ 8919		58	
	59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required		59	
	60a	Household employment taxes from Schedule H		60a	
	b	First-time homebuyer credit repayment. Attach Form 5405 if required		60b	
	61	Health care: individual responsibility (see instructions) Full-year coverage ☒		61	
	62	Taxes from: **a** ☐ Form 8959 **b** ☐ Form 8960 **c** ☐ Instructions; enter code(s)		62	
	63	Add lines 56 through 62. This is your **total tax** ▶		63	22,503
	64	Federal income tax withheld from Forms W-2 and 1099	64		

Bobbi and Drake were not entitled to the child tax credit because their MAGI exceeded the 2017 maximum phaseout amount of $130,000 for MFJ taxpayers ($110,000 + $20,000 phaseout range).[88]

In 2018, Bobbi and Drake again have wages of $150,000 and interest income of $3,000. The personal exemption is suspended, but their standard deduction increases to $24,000. Additionally, Bobbi and Drake are entitled to a child tax credit of $2,000 for Jeremy, who is still under age 17, and a family tax credit of $500 for Nate, who is now a full-time college student. Their total tax after the credits is $17,759 as shown in the following table.

MAGI	$153,000
Less: standard deduction	(24,000)
Taxable income	$129,000
Regular tax:[a] (($129,000 − $77,400) × 22%) + $8,907	$ 20,259
Less: family tax credit	(500)
Less: child tax credit	(2,000)
2018 tax after credits	$ 17,759

[a] See tax tables in the appendix at the end of the chapter.

Bobbi and Drake pay $4,744 less in taxes in 2018 than 2017 ($22,503 – $17,759), despite losing the personal exemptions.

[88] See IRS Pub. 972, *Child Tax Credit.*

Example 19. Stewart and Hannah are married and provide more than half of the support for Hannah's father, Jack. Jack lived with Stewart and Hannah the entire year and his gross income for 2017 was zero. In 2017, Stewart and Hannah each earned wages of $120,000. Stewart and Hannah took the standard deduction. Their total tax for 2017 was $47,127 as shown in the following table.

MAGI	$240,000
Less: standard deduction	(12,700)
Less: personal exemptions	(12,150)
Taxable income	$215,150
Total 2017 tax: [a] (($215,150 − $153,100) × 28%) + $29,753	$ 47,127

[a] See tax tables in the appendix at the end of the chapter.

Example 20. Use the same facts as **Example 19,** except the tax year is 2018. Jack is a qualifying relative and is eligible for the $500 family tax credit. For 2018, Stewart and Hannah owe total taxes of $39,919 calculated as follows.

MAGI	$240,000
Less: standard deduction	(24,000)
Taxable income	$216,000
Regular tax: [a] (($216,000 − $165,000) × 24%) + $28,179	$ 40,419
Less: family tax credit	(500)
Total 2018 tax	$ 39,919

[a] See tax tables in the appendix at the end of the chapter.

Stewart and Hannah lose three exemptions, but have a federal tax savings of $7,208 from 2017 to 2018 ($47,127 – $39,919).

CAPITAL GAINS[89]

In 2018, the breakpoints between capital gains rates were indexed for inflation. The TCJA did not change the capital gains rates and brackets. The rate schedule for 2018 follows.[90]

Filing Status	0%	15%	20%
MFJ or surviving spouse	$0–77,200	$77,201–479,000	Over $479,000
HoH	0–51,700	51,701–452,400	Over 452,400
MFS	0–38,600	38,601–239,500	Over 239,500
All other individuals	0–38,600	38,601–425,800	Over 425,800

89. TCJA §11001.

90. IRC §1(j)(5)

Example 21. Luis's 10-year old son, Manny, lives with him and Luis files as HoH. During 2017, Luis earns a salary of $50,000 and sells a stock for $375,000 that he bought in 2005 for $225,000. His long-term capital gain of $150,000 ($375,000 – $225,000) falls in the 15% bracket. The child tax credit was phased out completely because Luis' MAGI exceeds the upper end of the 2017 phaseout range of $95,000 for HoH. His tax in 2017 is $23,978, ($4,215 + $19,763), as calculated below.

	Ordinary Income		Capital Gain		
Salary	$50,000				
Long-term capital gain			$150,000		
Less: standard deduction	(9,350)				
Less: exemptions	(8,100)				
Taxable income	$32,550		$150,000		
Tax calculations:					
Ordinary income:[a] (($32,550 − $13,350) × 15%) + $1,335	$ 4,215				
Capital gain:[b] ($150,000 − $18,250) × 15%			$ 19,763		
2017 total tax	$ 4,215	+	$ 19,763	=	$23,978

[a] See tax tables in the appendix at the end of the chapter.

[b] In 2017, the first $50,800 of income is subject to 0% capital gains tax rate. In this example, of the $50,800, $32,550 is ordinary income subject to ordinary tax rates and the remaining $18,250 ($50,800 – $32,550) is subject to the 0% capital gains rate.

Example 22. Use the same facts as **Example 21,** except Luis sold the stock in 2018. His tax is $21,113 ($19,545 + $1,568), which is calculated as follows.

	Ordinary Income		Capital Gain		
Salary	$50,000				
Long-term capital gain			$150,000		
Less: standard deduction	(18,000)				
Taxable income	$32,000		$150,000		
Tax calculations:					
Ordinary income:[a] (($32,000 − $13,600) × 12%) + $1,360	$ 3,568				
Capital gain:[b] ($150,000 − $19,700) × 15%			$ 19,545		
Less: CTC	(2,000)				
2018 total tax	$ 1,568	+	$ 19,545	=	$21,113

[a] See tax tables in the appendix at the end of the chapter.

[b] In 2018, the first $51,700 of income is subject to 0% capital gains tax rate. In this example, of the $51,700, $32,000 is ordinary income subject to ordinary tax rates and the remaining $19,700 ($51,700 – $32,000) is subject to the 0% capital gains rate.

The same income levels resulted in a difference in tax from 2017 to 2018 of $2,865 ($23,978 − $21,113).

Under the TCJA, short-term capital gains continue to be treated as ordinary income and are subject to ordinary tax rates. Because ordinary tax rates under the TCJA are lower, short-term capital gains may result in a lower tax liability beginning in 2018.

Example 23. Use the same facts as **Example 21,** except Luis held the stock for less than one year. Because the gain on the stock was short-term and treated as ordinary income, Luis was subject to AMT. His tax for 2017 of $43,037 included $1,606 AMT, as shown on the following Form 6251, *Alternative Minimum Tax — Individuals,* and supporting statements.

28	**Alternative minimum taxable income.** Combine lines 1 through 27. (If married filing separately and line 28 is more than $249,450, see instructions.)	28	200,000
Part II	**Alternative Minimum Tax (AMT)**		
29	Exemption. (If you were under age 24 at the end of 2017, see instructions.) **IF your filing status is . . . / AND line 28 is not over . . . / THEN enter on line 29 . . .** Single or head of household — $120,700 — $54,300 Married filing jointly or qualifying widow(er) — 160,900 — 84,500 Married filing separately — 80,450 — 42,250 If line 28 is **over** the amount shown above for your filing status, see instructions.	29	34,475
30	Subtract line 29 from line 28. If more than zero, go to line 31. If zero or less, enter -0- here and on lines 31, 33, and 35, and go to line 34	30	165,525
31	• If you are filing Form 2555 or 2555-EZ, see instructions for the amount to enter. • If you reported capital gain distributions directly on Form 1040, line 13; you reported qualified dividends on Form 1040, line 9b; **or** you had a gain on both lines 15 and 16 of Schedule D (Form 1040) (as refigured for the AMT, if necessary), complete Part III on the back and enter the amount from line 64 here. • **All others:** If line 30 is $187,800 or less ($93,900 or less if married filing separately), multiply line 30 by 26% (0.26). Otherwise, multiply line 30 by 28% (0.28) and subtract $3,756 ($1,878 if married filing separately) from the result.	31	43,037
32	Alternative minimum tax foreign tax credit (see instructions)	32	
33	Tentative minimum tax. Subtract line 32 from line 31	33	43,037
34	Add Form 1040, line 44 (minus any tax from Form 4972), and Form 1040, line 46. Subtract from the result any foreign tax credit from Form 1040, line 48. If you used Schedule J to figure your tax on Form 1040, line 44, refigure that tax without using Schedule J before completing this line (see instructions)	34	41,431
35	**AMT.** Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 45	35	1,606

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 13600G Form **6251** (2017)

2017 **Federal Worksheets** **Page 2**

Client 10 **Luis**

7/19/18 02:37PM

Exemption Worksheet (Form 6251, Line 29)

1.	Enter $54,300 ($84,500 if married filing jointly or qualifying widow(er), $42,250 if married filing separately.)		54,300.
2.	Enter your alternative minimum taxable income (AMTI) from Form 6251, line 28.	200,000.	
3.	Enter $120,700 ($160,900 if married filing jointly or qualifying widow(er), $80,450 if married filing separately.)	120,700.	
4.	Subtract line 3 from line 2.	79,300.	
5.	Multiply line 4 by 25% (.25).		19,825.
6.	Subtract line 5 from line 1. If this form is for a child under age 18, or a full-time student under age 24, go to line 7. Otherwise enter this amount on Form 6251, line 29 and go to Form 6251, line 30.		34,475.
7.	Child's minimum exemption amount.		0.
8.	Enter the child's earned income, if any.		0.
9.	Add lines 7 and 8.		0.
10.	Enter the smaller of line 6 or line 9 here and on Form 6251, line 29, and go to Form 6251, line 30.		0.

2017	Federal Worksheets	Page 1
Client 10	Luis	
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Tax Computation Worksheet (Form 1040, Line 44)

Taxable Income	(a)	(b)	(c)	(d)	Tax
If Line 43 is -	Enter the Amount from Line 43	Multi-plication Amount	Multiply (a) by (b)	Subtraction Amount	Subtract (d) from (c) (rounded)
Over $131,200 but not over $212,500	182,550.	28.0%	51,114.00	9,683.50	41,431.

Example 24. Use the same facts as **Example 23,** except Luis sold the stock in 2018. His short-term gain is treated as ordinary income. Luis' tax for 2018 is $36,538, which is calculated as follows.

Salary	$ 50,000
Short-term capital gains	150,000
AGI	$200,000
Less: standard deduction	(18,000)
Taxable income	$182,000
Regular tax: [a] (($182,000 − $157,500) × 32%) + $30,698	$ 38,538
Less: CTC	(2,000)
Tax after credits	$ 36,538

[a] See tax tables in the appendix at the end of the chapter.

In 2018, Luis is not subject to AMT because of the higher phaseout amounts and exemptions (explained later in the chapter). Luis pays $6,499 less in taxes in 2018 ($43,037 – $36,538) than he would if he sold the stock in 2017.

ITEMIZED DEDUCTIONS

The TCJA introduced a temporary increase in the standard deduction and temporarily eliminated many itemized deductions. As a result, many taxpayers may find that their tax liability is quite different in 2018 compared to 2017.

> **Note.** For more information about the changes to the standard and various itemized deductions, see the 2018 *University of Illinois Federal Tax Workbook,* Volume A, Chapter 1: New Legislation — Individual Concerns.

STATE AND LOCAL TAXES

For years starting before December 31, 2017, taxpayers who paid personal property taxes were entitled to an unlimited itemized deduction on Schedule A, *Itemized Deductions*.[91] The TCJA limits the aggregate amount of state and local property taxes and state and local income (or sales) taxes that a taxpayer can deduct on Schedule A to $10,000 ($5,000 for MFS taxpayers).[92]

Taxpayers residing in states with high income taxes (e.g., California, New York, and Illinois) are greatly impacted by the limitation. Taxpayers in states with no income tax (e.g., Florida and Texas) are less affected because they can deduct sales tax paid during the year instead of state and local income taxes). Likewise, taxpayers who pay high property taxes are also affected by the limitation on the deduction for taxes. All taxpayers must claim itemized deductions that exceed the standard deduction to realize any benefit from taxes paid.[93]

Example 25. Alvarez is single and owns his house in Chicago, Illinois. He also owns a vacation home in Lake Geneva, Wisconsin. For 2017, Alvarez earned $220,000 in wages and itemized the following deductions on his Schedule A.

Property tax on Chicago residence	$15,000	
Property tax on vacation home	5,300	
State income tax	10,780	
Subtotal	$31,080	$31,080
Charitable cash donations		750
Total itemized deductions		$31,830

Alvarez's total tax for 2017 was $49,509, as shown on the following Form 1040.

91. IRC §164(a)(2).

92. TCJA §11042; IRC §164(b)(6)(B).

93. *Congress and the SALT Deduction.* Ahroni, Scott; Pilato, Biagio; and Silliman, Benjamin. Jan. 2018. The CPA Journal. [www.cpajournal.com/2018/01/22/congress-salt-deduction/] Accessed on May 17, 2018.

For Example 25

Form 1040 (2017) Page **2**

Tax and Credits

Standard Deduction for—
• People who check any box on line 39a or 39b **or** who can be claimed as a dependent, see instructions.
• All others:
Single or Married filing separately, $6,350
Married filing jointly or Qualifying widow(er), $12,700
Head of household, $9,350

38	Amount from line 37 (adjusted gross income)			38	220,000
39a	Check if: ☐ **You** were born before January 2, 1953, ☐ Blind. ☐ **Spouse** was born before January 2, 1953, ☐ Blind. **Total boxes checked ▶ 39a** ☐				
b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐				
40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)			40	31,830
41	Subtract line 40 from line 38			41	188,170
42	**Exemptions.** If line 38 is $156,900 or less, multiply $4,050 by the number on line 6d. Otherwise, see instructions			42	4,050
43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-			43	184,120
44	**Tax** (see instructions). Check if any from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972 **c** ☐			44	44,535
45	**Alternative minimum tax** (see instructions). Attach Form 6251			45	4,794
46	Excess advance premium tax credit repayment. Attach Form 8962			46	
47	Add lines 44, 45, and 46 ▶			47	49,329
48	Foreign tax credit. Attach Form 1116 if required	48			
49	Credit for child and dependent care expenses. Attach Form 2441	49			
50	Education credits from Form 8863, line 19	50			
51	Retirement savings contributions credit. Attach Form 8880	51			
52	Child tax credit. Attach Schedule 8812, if required	52			
53	Residential energy credits. Attach Form 5695	53			
54	Other credits from Form: **a** ☐ 3800 **b** ☐ 8801 **c** ☐	54			
55	Add lines 48 through 54. These are your **total credits**			55	
56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ▶			56	49,329

Other Taxes

57	Self-employment tax. Attach Schedule SE			57	
58	Unreported social security and Medicare tax from Form: **a** ☐ 4137 **b** ☐ 8919			58	
59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required			59	
60a	Household employment taxes from Schedule H			60a	
b	First-time homebuyer credit repayment. Attach Form 5405 if required			60b	
61	Health care: individual responsibility (see instructions) Full-year coverage ☒			61	
62	Taxes from: **a** ☒ Form 8959 **b** ☐ Form 8960 **c** ☐ Instructions; enter code(s)			62	180
63	Add lines 56 through 62. This is your **total tax** ▶			63	49,509
64	Federal income tax withheld from Forms W-2 … 1099	64			

Example 26. Use the same facts as **Example 25,** except the tax year is 2018. Alvarez's property and state income tax of $31,080 is limited to $10,000 for 2018. His total itemized deductions for the year are $10,750 ($10,000 + $750 charitable donation). Alvarez takes the $12,000 standard deduction. Because of the increased AMT exemption (explained later), Alvarez is not subject to AMT in 2018. His total tax for 2018 is $48,670, calculated as follows.

AGI	$220,000
Less: standard deduction	(12,000)
Taxable income	$208,000
Regular tax: [a] (($208,000 − $200,000) × 35%) + $45,690	$ 48,490
AMT	0
Additional Medicare tax: ($220,000 wages − $200,000 threshold) × 0.9%	180
2018 total taxes	$ 48,670

[a] See tax tables in the appendix at the end of the chapter.

Despite losing the benefit of itemizing state income and property taxes, Alvarez's 2018 taxes are $839 ($49,509 – $48,670) lower than his 2017 taxes, primarily because of lower tax rates.

Example 27. Jeff is single and owns his home in California. During 2017, he earned a salary of $90,000 and paid the following deductible expenses.

State and local income taxes	$ 6,500	
Property tax	4,500	
Subtotal	$11,000	$11,000
Home mortgage interest		2,000
Charitable contributions		5,000
Total		$18,000

Jeff filed the following Form 1040. His tax liability for 2017 is $12,726.

Form 1040 (2017) Page **2**

	38	Amount from line 37 (adjusted gross income)	38	90,000
Tax and Credits	39a	Check if: ☐ **You** were born before January 2, 1953, ☐ Blind. ☐ **Spouse** was born before January 2, 1953, ☐ Blind. **Total boxes checked ▶ 39a** ☐		
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐		
Standard Deduction for— • People who check any box on line 39a or 39b **or** who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, $6,350; Married filing jointly or Qualifying widow(er), $12,700; Head of household, $9,350	40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)	40	18,000
	41	Subtract line 40 from line 38	41	72,000
	42	**Exemptions.** If line 38 is $156,900 or less, multiply $4,050 by the number on line 6d. Otherwise, see instructions	42	4,050
	43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	67,950
	44	**Tax** (see instructions). Check if any from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972 **c** ☐	44	12,726
	45	**Alternative minimum tax** (see instructions). Attach Form 6251	45	0
	46	Excess advance premium tax credit repayment. Attach Form 8962	46	
	47	Add lines 44, 45, and 46 ▶	47	12,726
	48	Foreign tax credit. Attach Form 1116 if required — 48		
	49	Credit for child and dependent care expenses. Attach Form 2441 — 49		
	50	Education credits from Form 8863, line 19 — 50		
	51	Retirement savings contributions credit. Attach Form 8880 — 51		
	52	Child tax credit. Attach Schedule 8812, if required — 52		
	53	Residential energy credits. Attach Form 5695 — 53		
	54	Other credits from Form: **a** ☐ 3800 **b** ☐ 8801 **c** ☐ — 54		
	55	Add lines 48 through 54. These are your **total credits**	55	
	56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ▶	56	12,726
Other Taxes	57	Self-employment tax. Attach Schedule SE	57	
	58	Unreported social security and Medicare tax from Form: **a** ☐ 4137 **b** ☐ 8919	58	
	59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	
	60a	Household employment taxes from Schedule H	60a	
	b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b	
	61	Health care: individual responsibility (see instructions) Full-year coverage ☒	61	
	62	Taxes from: **a** ☐ Form 8959 **b** ☐ Form 8960 **c** ☐ Instructions; enter code(s)	62	
	63	Add lines 56 through 62. This is your **total tax** ▶	63	12,726
	64	Federal income tax withheld from Forms W-2 and 1099 — 64		

Example 28. Use the same facts as **Example 27,** except the tax year is 2018. Jeff is limited to a deduction of $10,000 for his state and property taxes. His total itemized deductions are $17,000 ($10,000 state income and property taxes + $2,000 home mortgage interest + $5,000 charitable deductions). Jeff's itemized deductions of $17,000 exceed the standard deduction of $12,000. His total tax is $12,000, as shown in the following table.

AGI	$90,000
Less: itemized deductions	(17,000)
Taxable income	$73,000
2018 regular tax:[a] (($73,000 − $38,700) × 22%) + $4,454	$12,000

[a] See tax tables in the appendix at the end of the chapter.

Despite the deduction for state and property taxes being limited on his Schedule A, Jeff pays $726 less ($12,726 – $12,000) in income tax in 2018 than in 2017, primarily because of lower tax rates.

Mixed-Use Real Property Deductions

Taxpayers with income on a Schedule C, Schedule E, *Supplemental Income and Loss,* or Schedule F, *Profit or Loss From Farming,* can deduct property taxes paid as a business expense.[94] Any tax imposed by a state or local government on personal property or real estate used in a trade or business is deductible on Schedule C, E, or F without the $10,000 limitation.[95] A mixed-use asset used for both business and personal purposes may have itemized deduction implications.

Rental Use and Personal Use. Rental activities must be operated with a profit motive for any losses generated to be deductible. If a property is used partly to generate income and partly for personal purposes (e.g., a vacation home), the amount of deductible expenses may be limited. In order to determine the tax consequences of real estate rental activities, a multiple-step analysis is required.

Step 1. Is the average rental period seven days or less? Is the average period of customer use 30 days or less with significant personal services provided? If the answer to either question is yes, the activity is treated as a business (nonpassive activity) rather than a passive rental activity.[96]

Step 2. Did the taxpayer spend more than the greater of 14 days at the property or 10% of the days rented at a fair rental value? If so, the rental deductions are limited to the amount of rental income.[97]

Step 3. If taxpayer does not meet either the **Step 1** test or **Step 2** test, does the taxpayer actively participate (own at least 10% of the rental real estate alone or with a spouse[98] and make management decisions in a significant and bona fide sense[99]) in the activity and have a MAGI that does not exceed $100,000? If so, the activity is a passive rental activity subject to the $25,000 special allowance ($12,500 for a MFS spouse living apart).[100] The special allowance is reduced by 50% for taxpayers with AGI in excess of $100,000 ($50,000 for MFS).[101] The allowance is completely phased out for taxpayers with AGI of $150,000 ($75,000 for MFS).[102] No deduction is allowed for MFS taxpayers who **live together** any day during the year.[103]

If the taxpayer does not qualify for the $25,000 special allowance, any remaining loss after the passive losses offset passive income in the current year are carried forward to succeeding years.[104] Any passive loss is fully deductible in the year in which the property is fully disposed.[105]

94. Instructions for Schedule C, Schedule E, and Schedule F.
95. IRS Pub. 535, *Business Expenses.*
96. Temp. Treas. Reg. §1.469-1T(e)(3); Treas. Reg. §1.469-1(e)(2).
97. IRC §§280A(c)(5) and (d)(1).
98. IRC §469(i)(6).
99. IRS Pub. 925, *Passive Activity and At-Risk Rules.*
100. IRC §§469(i)(2) and (5).
101. IRC §§469(i)(3)(A) and (5).
102. IRS Pub. 925, *Passive Activity and At-Risk Rules.*
103. IRC §469(i)(5)(B).
104. IRC §§469(b) and (d).
105. IRC §469(g).

Step 4. Material participation by a taxpayer in a real estate rental activity results in the activity being treated as a nonpassive business activity (see **Step 1**). For this purpose, **material participation** exists when the taxpayer meets one of the following six tests.[106]

1. The taxpayer and/or spouse work more than 500 hours a year on activities related to the rental.
2. The taxpayer performs substantially all of the work.
3. The taxpayer works at least 100 hours and not less than any other individual.
4. The taxpayer has several passive businesses with losses in which they participate 100–500 hours, and the total participation in the activities exceeds 500 hours.
5. The taxpayer materially participates for five out of the last 10 years.
6. The facts and circumstances indicate that the taxpayer materially participates.

If any **one** of these six tests are met, the vacation property rental loss is a business loss deductible against other income, subject to the basis and at-risk rules. If none of the six tests are met, some or all of the excess expenses cannot offset income from other sources. Any excess loss is carried forward to succeeding years and treated as rental expenses for the same property. Expenses carried forward to succeeding years are subject to any limits that apply for that year, regardless of whether the taxpayer used the property as their home in the subsequent year.[107]

Personal-Use Limitations. If a taxpayer or family members use a vacation property for the **greater of 14 days or 10% of the property's rental time,** the personal-use limitations of IRC §280A apply and IRC §469 is no longer applicable. IRC §280A severely limits losses.

Rental expenses are limited to total expenses multiplied by a fraction. The denominator is the total number of days the dwelling unit is used and the numerator is the total number of days actually rented at a fair rental price.[108]

For this purpose, a **personal-use day** is considered the 24-hour period for which a normal rental is calculated. Therefore, if the owner occupies the property on Friday and Saturday night, it is considered two days even if they arrive at noon on Friday and leave at noon on Sunday.[109] Personal-use days do not include owner "work days" on the property.

Vacation property used by a family member is considered personal use even if they pay fair market value. Family members include spouses, brothers, sisters, ancestors, lineal descendants, and spouses of lineal descendants.[110] If the family member pays a fair rental value and uses the property as their **principal residence,** the time rented is not counted as personal use.[111]

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106. Temp. Treas. Reg. §1.469-5T(a).
107. IRS Pub. 527, *Residential Rental Property (Including Rental of Vacation Homes)*.
108. Ibid.
109. *Dorrance D. and Helen A. Bolton v. Comm'r,* 694 F.2d 556 (9th Cir. 1982); *Edith G. McKinney v. Comm'r,* 732 F.2d 414 (10th Cir. 1983).
110. IRC §267(c)(4).
111. IRC §280A(e)(1).

Example 29. Use the same facts as **Example 25.** In 2018, Alvarez decides to convert his vacation home in Lake Geneva to a rental house. He rents it out for a total of 90 days and spends one week during the year at the house for personal purposes. Alvarez permits his brother to stay at the house for seven days over the Christmas holidays. Alvarez reports rental income of $36,000 on Schedule E. He offsets the rental income with property tax on the Lake Geneva house of $4,587 ($5,300 × (90 rental days ÷ 104 total use days))[112] for taxable income of $31,413 ($36,000 – $4,587). The property tax is not limited to $10,000 on his Schedule E as it would be on his Schedule A.

The remaining property tax on the Lake Geneva house of $713 ($5,300 – $4,587) is subject to the limitation on property and income taxes paid reported on his Schedule A. In 2018, Alvarez paid property and income taxes of $26,493 ($15,000 principal residence property tax + $713 vacation home property tax + $10,780 income tax), which is limited to $10,000. Unless Alvarez has additional itemized deductions, he will benefit more from taking the $12,000 standard deduction than itemizing deductions.

Example 30. Use the same facts as **Example 29,** except Alvarez uses the Lake Geneva property for personal purposes for three total weeks during the year, plus the week his brother stayed at the property. Because Alvarez and his brother used the property for at least 14 days, the 10% rule determines whether his Schedule E deductions are limited.

90 rental days × 10% = 9 days

Alvarez and his brother used the property for 28 days, which is greater than the nine days calculated under the 10% rule. Consequently, the property tax is limited on his Schedule E. The following illustrates the allocations to Schedule E and Schedule A.

Rental portion (Schedule E)	90 days ÷ 118 days = 76.27%
Residential portion (Schedule A)	28 days ÷ 118 days = 23.73%

Item	Total	Rental Portion	Residential Portion
Rental income	$36,000	$36,000	$ 0
Less: property taxes	(5,300)	(4,042)	(1,258)
Net rental income	$30,700	$31,958	($1,258)

Alvarez's total itemized deductions are $27,038 ($15,000 principal residence property tax + $1,258 vacation home property tax + $10,780 income tax), which is limited to $10,000. Unless Alvarez has additional itemized deductions, he will benefit more from taking the $12,000 standard deduction than itemizing deductions.

Note. Certain taxpayers may benefit from the *Bolton*[113] method of allocating expenses which uses 365 calendar days instead of days used for mortgage interest and real estate taxes. For more information about this alternative method, see the 2017 *University of Illinois Federal Tax Workbook,* Volume B, Chapter 2: Individual Taxpayer Issues.

112. See IRC §280A(e)(1).

113. *Dorrance D. and Helen A. Bolton v. Comm'r,* 694 F.2d 556 (9th Cir. 1982).

Prepaid Expenses

At the end of 2017, in anticipation of the implementation of TCJA and the $10,000 limitation on state and local taxes,[114] some taxpayers prepaid property tax for 2018. As explained in Chapter 1: New Legislation – Individual Concerns, an individual can claim an itemized deduction for 2017 on a prepayment of real property tax if the tax was assessed prior to 2018. State or local law determines when property tax is assessed.[115]

Example 31. Greg lives in Champaign, Illinois. Illinois taxpayers generally pay their property taxes in arrears because taxes are assessed in the year prior to taxpayers paying them. Greg paid the following real property taxes on his home.

	Paid in 2017	Paid in 2018
First installment 2016 (paid June 1, 2017)	$ 5,100	
Second installment 2016 (paid September 1, 2017)	5,100	
First installment 2017 (paid December 30, 2017)	5,250	
Second installment 2017 (paid September 1, 2018)		$5,250
Total property taxes paid	$15,450	$5,250

Greg itemizes deductions for 2017, so he is eligible for the full benefit of the $15,450 of property taxes he paid in 2017. If Greg paid both 2018 installments in 2018, he would be limited to $10,000, losing the benefit of $500 ($10,000 – $5,250 – $5,250). Because Greg already reached the $10,000 limit for his property taxes, he would not be able to deduct any state income taxes paid in 2018.

CHARITABLE CONTRIBUTIONS

During the TCJA period, individuals may deduct cash contributions up to 60% of their contribution base for charitable contributions to organizations described in IRC §170(b)(1)(A).[116] The **contribution base** is defined as the taxpayer's AGI without taking into account any NOL carryback to the tax year.[117] Any amount disallowed because of the 60% limitation can be carried forward for up to five years.[118]

Example 32. Willow is 72 years old in 2018. Her 2018 AGI is $30,000 and she does not have an NOL. Every year she donates $5,000 to her church. Because the $5,000 donation is less than $18,000 ($30,000 contribution base × 60% limitation), Willow can deduct her entire charitable contribution without limitation.

Example 33. Use the same facts as **Example 32,** except in addition to Willow's $5,000 donation to her church, she also made donations to several other eligible charities totaling $14,000. Her total charitable donations of $19,000 exceeds 60% of her contribution base by $1,000 ($19,000 – $18,000 limitation). Willow can deduct $18,000 on her Schedule A. The $1,000 amount in excess of her limitation is carried forward to 2019.

114. TCJA §11042.

115. IRS News Rel. IR-2017-210 (Dec. 27, 2017).

116. TCJA §11023.

117. IRC §170(b)(1)(H).

118. IRC §170(b)(1)(G)(ii).

QUALIFIED CHARITABLE DISTRIBUTIONS[119]

Because of the increased standard deduction, fewer taxpayers will benefit from itemizing deductions, including charitable contributions. Qualified charitable distributions (QCD) from an IRA (other than a simplified employee pension plan (SEP) or savings incentive match plan (SIMPLE)) are excluded from gross income and therefore can provide a tax benefit to an individual who does not claim itemized deductions. IRA owners who are at least age 70½ can make a direct charitable contribution of up to $100,000 from their IRA to an eligible charitable organization. A §501(c)(3) charitable organization must provide the same type of contribution acknowledgement that is required to claim a Schedule A charitable contribution deduction.

Example 34. Use the same facts as **Example 33.** Instead of a cash donation, Willow instructed the trustee of her IRA to directly make her annual $5,000 distribution to her church on September 15, 2018. The church acknowledged her contribution via a letter and Willow filed it with her important 2018 documents.

Because Willow is at least age 70½ and the distribution is made directly by the trustee to a qualified organization, the $5,000 is a QCD. Willow is still entitled to a charitable contribution deduction for the $14,000 of donations to the other eligible charities.

The QCD amount is limited to the distribution amount that would otherwise be included in income. If the IRA includes nondeductible contributions, the **QCD is first considered paid out of otherwise taxable income.**

Example 35. Use the same facts as **Example 34.** Willow has an IRA with a total value of $35,000. It consists of $25,000 deductible contributions and earnings, and $10,000 nondeductible contributions (basis). Willow's $5,000 QCD is considered paid from the $25,000 portion of the IRA. Her basis remains $10,000.

Example 36. Use the same facts as **Example 35,** except Willow transfers $31,000 in a QCD to her church. The $25,000 portion of the IRA that is from deductible contributions is excluded from income. The excess $6,000 ($31,000 – $25,000) reduces her basis to $4,000 ($10,000 – $6,000). In addition, the $6,000 paid from her basis is included in charitable deductions on Schedule A.

Caution. QCD donations are not in any way designated as nontaxable on Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.* They appear as a normal **taxable** distribution. The tax preparer should ask their clients if they made a QCD, and, if so, should obtain the documentation necessary to satisfy due diligence requirements. Tax preparation software should include an area on the Form 1099-R entry screen to designate the distribution as a QCD.

For couples who file MFJ, each spouse may exclude up to $100,000 annually. Any QCD in excess of the $100,000 maximum annual exclusion limit is included in income and reported like any other IRA distribution.

HOME EQUITY DEBT[120]

Home equity indebtedness is defined as indebtedness other than acquisition indebtedness secured by a qualified residence. Acquisition indebtedness is any debt that is incurred in acquiring, constructing, or substantially improving any qualified residence of the taxpayer and that is secured by such residence. A qualified residence is defined as a primary residence and a second home used for personal purposes for the greater of 14 days or 10% of the days it is rented at a fair value during the year.[121]

During the TCJA period, a taxpayer may treat no more than $750,000 as acquisition indebtedness ($375,000 for MFS taxpayers). The TCJA suspends the deduction for interest on certain types of **home equity indebtedness.** Interest paid on home equity loans and home equity lines-of-credit (HELOC) is **not** deductible unless the loans are used to buy, build, or substantially improve the taxpayer's home that secures the loan.[122]

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119. IRC §408(d)(8); IRS Pub. 590-B, *Distributions from Individual Retirement Arrangements (IRAs).*

120. IRC §163(h); TCJA §11043.

121. IRC §§163(h)(4)(A)(i) and 280A(d)(1).

122. IRS News Rel. IR-2018-32 (Feb. 21, 2018).

Debt consolidation is the process of combining multiple debts into a "single, larger piece of debt, usually with more favorable pay-off terms."[123] Debt consolidation is frequently achieved through a second mortgage or a HELOC.[124] Loans that are secured with a residence qualify for a tax deduction on the interest[125] if the loan was used to buy, build, or substantially improve the taxpayer's home that secures the loan.

Example 37. Janet and Corey are married and they file joint returns every year. In 2018, they take out a HELOC on their primary residence and use the funds to add a deck to their house and remodel the kitchen. The outstanding mortgage on their home is $300,000 and the HELOC amount is $80,000. During 2018, Janet and Corey pay $4,700 of interest on the HELOC. The entire $4,700 of interest is deductible because they used the HELOC to substantially improve their primary residence and the total amount of acquisition indebtedness is less than $750,000.

Example 38. Use the same facts as **Example 37,** except Janet and Corey use the funds from the HELOC secured by their primary residence to help purchase a vacation home. During 2018, Janet and Corey paid $1,500 of interest on the HELOC. None of the interest paid on the HELOC is deductible because the HELOC was **secured by the primary residence** and the funds from the HELOC were used on their vacation home.

Example 39. Use the same facts as **Example 38,** except Janet and Corey take out a $375,000 first mortgage on their vacation home rather than using the HELOC. During 2018, they pay home mortgage interest on their vacation home of $1,650. The combined acquisition indebtedness is $675,000 ($300,000 primary residence + $375,000 vacation home), which is less than the $750,000 limit. Therefore, Janet and Corey may deduct $1,650 of interest on their vacation home as well as the interest on their principal residence home mortgage.

Example 40. Use the same facts as **Example 37,** except instead of using the funds from the HELOC to add a deck and remodel the kitchen, Janet and Corey use the funds to pay off Corey's student loans. The $4,700 interest that they pay in 2018 on the HELOC is nondeductible.

The deductibility of interest depends on whether the loan proceeds are used for business, personal, or investment activities.[126] The interest on a home equity loan used for **rental activities** is deductible on Schedule E. Interest on a home equity loan used for **trade or business activities** is deductible on the sole proprietor's Schedule C. If a taxpayer uses the proceeds of a loan for more than one type of expense, **they must allocate the interest based on the use of the loan proceeds.**[127]

Example 41. Hector is a real estate agent who owns his own agency. In 2018, Hector owns the following properties.

1. Principal residence with a mortgage of $275,000
2. Rental property with a mortgage of $250,000

Hector takes out a $100,000 HELOC on his principal residence. He uses $75,000 of the funds to remodel the bathrooms and put a new roof on his rental property. Hector spends $10,000 of the HELOC funds on a vacation and he spends the remaining $15,000 on expenses for his business.

During 2018, Hector pays $5,000 of interest on the HELOC. On his Schedule C for his real estate agency, Hector claims $750 of interest ($5,000 × ($15,000 ÷ $100,000)). On the Schedule E for the rental property, he deducts interest of $3,750 ($5,000 × ($75,000 ÷ $100,000)). The remaining $500 of interest ($5,000 × ($10,000 ÷ $100,000)) is nondeductible because the funds were used for personal purposes rather than to buy, build, or substantially improve Hector's principal residence.

123. *Debt Consolidation.* Investopedia. [www.investopedia.com/terms/d/debtconsolidation.asp] Accessed on May 10, 2018.

124. *Debt Consolidation.* US TaxCenter. [www.irs.com/articles/debt-consolidation] Accessed on May 10, 2018.

125. *Debt Consolidation.* Investopedia. [www.investopedia.com/terms/d/debtconsolidation.asp] Accessed on May 10, 2018.

126. See IRS Pub. 535, *Business Expenses.*

127. Ibid.

MISCELLANEOUS ITEMIZED DEDUCTIONS[128]

No miscellaneous itemized deductions subject to the 2% of AGI floor are allowed during the TCJA period. These include the following.

- Tax preparation fees
- Union dues
- Safety clothing
- Professional subscriptions
- Unreimbursed business expenses

> **Note.** For a full list of miscellaneous itemized deductions impacted by the TCJA, see the 2018 *University of Illinois Federal Tax Workbook,* Volume A, Chapter 1: New Legislation — Individual Concerns.

Investment Expenses

Prior to the TCJA, taxpayers were allowed deductions for investment expenses directly connected with the production of investment income. The expenses had to be ordinary and necessary expenses paid or incurred to produce or collect income or to manage property held for producing taxable income. Examples of deductible expenses included the following.[129]

- Attorney or accounting fees
- Clerical help and office rent
- Cost of replacing missing securities
- Fees to collect income
- Investment counsel and advice
- Safe deposit box rent to store taxable income-producing investments
- Trustee's commissions for revocable trust
- Investment expenses from pass-through entities

Example 42. Rebecca, who is single, invests heavily in stocks, bonds, and mutual funds. In 2017, she incurs investment expenses totaling $2,750 on her taxable securities. Rebecca's wages for 2017 were $80,000 and she had long-term capital gains of $25,000. She filed the following Schedule A with her 2017 Form 1040.

128. TCJA §11045; IRC §67(g).

129. IRS Pub. 550, *Investment Income and Expenses.*

For Example 42

SCHEDULE A (Form 1040)

Department of the Treasury Internal Revenue Service (99)

Itemized Deductions

▶ Go to *www.irs.gov/ScheduleA* for instructions and the latest information.
▶ Attach to Form 1040.

Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 28.

OMB No. 1545-0074
2017
Attachment Sequence No. 07

Name(s) shown on Form 1040	Your social security number
Rebecca	555-44-3333

Medical and Dental Expenses		**Caution:** Do not include expenses reimbursed or paid by others.				
	1	Medical and dental expenses (see instructions)	1			
	2	Enter amount from Form 1040, line 38 [2]				
	3	Multiply line 2 by 7.5% (0.075)	3			
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4	
Taxes You Paid	5	State and local **(check only one box):**				
		a ☒ Income taxes, **or**	5	2,600		
		b ☐ General sales taxes				
	6	Real estate taxes (see instructions)	6	3,500		
	7	Personal property taxes	7			
	8	Other taxes. List type and amount ▶	8			
	9	Add lines 5 through 8			9	6,100
Interest You Paid	10	Home mortgage interest and points reported to you on Form 1098	10	5,000		
Note: Your mortgage interest deduction may be limited (see instructions).	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ▶	11			
	12	Points not reported to you on Form 1098. See instructions for special rules	12			
	13	Mortgage insurance premiums (see instructions)	13			
	14	Investment interest. Attach Form 4952 if required. See instructions	14			
	15	Add lines 10 through 14			15	5,000
Gifts to Charity	16	Gifts by cash or check. If you made any gift of $250 or more, see instructions	16	1,500		
If you made a gift and got a benefit for it, see instructions.	17	Other than by cash or check. If any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500	17			
	18	Carryover from prior year	18			
	19	Add lines 16 through 18			19	1,500
Casualty and Theft Losses	20	Casualty or theft loss(es) other than net qualified disaster losses. Attach Form 4684 and enter the amount from line 18 of that form. See instructions			20	
Job Expenses and Certain Miscellaneous Deductions	21	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. See instructions. ▶	21			
	22	Tax preparation fees	22	500		
	23	Other expenses—investment, safe deposit box, etc. List type and amount ▶	23	2,750		
	24	Add lines 21 through 23	24	3,250		
	25	Enter amount from Form 1040, line 38 [25] 105,000				
	26	Multiply line 25 by 2% (0.02)	26	2,100		
	27	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-			27	1,150
Other Miscellaneous Deductions	28	Other—from list in instructions. List type and amount ▶			28	
Total Itemized Deductions	29	Is Form 1040, line 38, over $156,900? ☒ **No.** Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40. ☐ **Yes.** Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.			29	13,750
	30	If you elect to itemize deductions even though they are less than your standard deduction, check here ▶ ☐				

For Paperwork Reduction Act Notice, see the Instructions for Form 1040. Cat. No. 17145C **Schedule A (Form 1040) 2017**

Her miscellaneous itemized deductions of $3,250 including the investment expenses of $2,750 exceeded 2% of Rebecca's $105,000 AGI. Her 2017 tax of $15,039 is calculated as follows.

	Ordinary Income		Capital Gain		
Salary	$80,000				
Capital gains			$25,000		
Less: itemized deductions	(13,750)				
Less: personal exemption	(4,050)				
Taxable income	$62,200		$25,000		
Tax calculations:					
Ordinary income: [a] (($62,200 − $37,950) × 25%) + $5,226	$11,289				
Capital gain: $25,000 × 15%			$ 3,750		
2017 total tax	$11,289	+	$ 3,750	=	$15,039

[a] See tax tables in the appendix at the end of the chapter.

Example 43. Use the same facts as **Example 42,** except the tax year is 2018. Miscellaneous deductions subject to the 2% of AGI threshold, including investment expenses, are not allowed for 2018. Rebecca's itemized deductions are $12,600 ($6,100 taxes + $5,000 interest + $1,500 charitable contributions) as shown on the Schedule A on the following page.

Her tax of $14,518 is calculated as follows.

	Ordinary Income		Capital Gain		
Salary	$80,000				
Capital gains			$25,000		
Less: itemized deductions	(12,600)				
Taxable income	$67,400		$25,000		
Tax calculations:					
Ordinary income: [a] (($67,400 − $38,700) × 22%) + $4,454	$10,768				
Capital gain: $25,000 × 15%			$ 3,750		
2018 total tax	$10,768	+	$ 3,750	=	$14,518

[a] See tax tables in the appendix at the end of the chapter.

Despite the loss of the deduction for her miscellaneous itemized deductions, Rebecca pays $521 ($15,039 – $14,518) less in tax in 2018 because of the reduction in tax rates.

For Example 43

SCHEDULE A (Form 1040) Department of the Treasury Internal Revenue Service (99)	**Itemized Deductions** ▶ Go to *www.irs.gov/ScheduleA* for instructions and the latest information. ▶ Attach to Form 1040. **Caution:** If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 16.	OMB No. 1545-0074 2018 Attachment Sequence No. 07
Name(s) shown on Form 1040: Rebecca		Your social security number: 555-44-3333

Medical and Dental Expenses		**Caution:** Do not include expenses reimbursed or paid by others.				
	1	Medical and dental expenses (see instructions)	1			
	2	Enter amount from Form 1040, line 7 [2]				
	3	Multiply line 2 by 7.5% (0.075)	3			
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4	
Taxes You Paid	5	State and local taxes				
	a	State and local income taxes or general sales taxes. You may include either income taxes or general sales taxes on line 5a, but not both. If you elect to include general sales taxes instead of income taxes, check this box ▶ ☐	5a	2,600		
	b	State and local real estate taxes (see instructions)	5b	3,500		
	c	State and local personal property taxes	5c			
	d	Add lines 5a through 5c	5d	6,100		
	e	Enter the smaller of line 5d and $10,000 ($5,000 if married filing separately)	5e	6,100		
	6	Other taxes. List type and amount ▶	6			
	7	Add lines 5e and 6			7	6,100
Interest You Paid Caution: Your mortgage interest deduction may be limited (see instructions).	8	Home mortgage interest and points. If you didn't use all of your home mortgage loan(s) to buy, build, or improve your home, see instructions and check this box ▶ ☐				
	a	Home mortgage interest and points reported to you on Form 1098	8a	5,000		
	b	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ▶	8b			
	c	Points not reported to you on Form 1098. See instructions for special rules	8c			
	d	Reserved	8d			
	e	Add lines 8a through 8c	8e	5,000		
	9	Investment interest. Attach Form 4952 if required. See instructions	9			
	10	Add lines 8e and 9			10	5,000
Gifts to Charity If you made a gift and got a benefit for it, see instructions.	11	Gifts by cash or check. If you made any gift of $250 or more, see instructions	11	1,500		
	12	Other than by cash or check. If any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500	12			
	13	Carryover from prior year	13			
	14	Add lines 11 through 13			14	1,500
Casualty and Theft Losses	15	Casualty and theft loss(es) from a federally declared disaster (other than net qualified disaster losses). Attach Form 4684 and enter the amount from line 18 of that form. See instructions			15	
Other Itemized Deductions	16	Other—from list in instructions. List type and amount ▶			16	
Total Itemized Deductions	17	Add the amounts in the far right column for lines 4 through 16. Also, enter this amount on Form 1040, line 8			17	12,600
	18	If you elect to itemize deductions even though they are less than your standard deduction, check here ▶ ☐				

For Paperwork Reduction Act Notice, see the Instructions for Form 1040. Cat. No. 17145C **Schedule A (Form 1040) 2018**

AMT IMPLICATIONS UNDER TCJA[130]

AMT is imposed on an individual in the amount by which the tentative minimum tax exceeds regular income tax. For tax years beginning in 2017, the tentative minimum tax is generally the sum of 26% of the taxable excess that does not exceed $187,800 ($93,900 for MFS taxpayers) and 28% of the remaining taxable excess.[131] **Taxable excess** is defined as the amount of alternative minimum taxable income (AMTI) that exceeds the exemption amount. **AMTI** is defined as the taxable income adjusted for specified tax preferences and adjustments (e.g., taxes from Schedule A, home equity interest, miscellaneous itemized deductions, investment interest expense, and state tax refunds[132]). Exemption amounts are phased out by an amount equal to 25% of the amount that the AMTI exceeds threshold amounts, which are indexed for inflation.[133]

During the TCJA period, both the exemption amount and the exemption phaseout amount are increased to the amounts shown below.[134]

Filing Status	2018 AMT Exemption	2018 Exemption Phaseout
MFJ or surviving spouse	$109,400	$1,000,000
MFS	54,700	500,000
All other individuals	70,300	500,000

The 2017 AMT exemption amounts and exemption phaseout amounts were as follows.[135]

Filing Status	2017 AMT Exemption	2017 Exemption Phaseout
MFJ or surviving spouse	$84,500	$160,900
MFS	42,250	80,450
All other individuals	54,300	120,700

Example 44. Alice and Marty Smith are married, and they have two children under age 17. Their 2017 Form 1040 showed AGI of $150,000 from wages. They reported $43,150 of itemized deductions on Schedule A, which consisted of the following expenses.

Medical ($13,900 total; $2,650 allowed in excess of 7.5% of AGI)	$ 2,650
State income tax	24,000
Real estate tax	9,000
Charitable contribution	7,500
Total	$43,150

Alice and Marty had taxable income of $90,650 ($150,000 wages – $43,150 itemized deductions – $16,200 exemptions). The child tax credit was phased out completely because their MAGI exceeded the upper end of the phaseout range as calculated on the following child tax credit worksheet.

130. TCJA §12003; *Joint Explanatory Statement of the Committee of Conference.* [docs.house.gov/billsthisweek/20171218/Joint%20Explanatory%20Statement.pdf] Accessed on Apr. 27, 2018.

131. See Form 6251, *Alternative Minimum Tax-Individuals.*

132. Ibid.

133. IRC §§55(d)(2) and 55(d)(4)(B).

134. IRC §55(d)(4)(A).

135. Rev. Proc. 2016-55, 2016-45 IRB 707.

For Example 44

Child Tax Credit Worksheet

Alice and Marty

Before you begin: √ Figure the amount of any credits you are claiming on Form 5695, Part II, line 30*; Form 8910; Form 8936; or Schedule R.

CAUTION

- *To be a qualifying child for the child tax credit, the child must be* **under age 17** *at the end of 2017 and meet the other requirements listed earlier under* Qualifying Child. *Also see* Taxpayer identification number needed by due date of return, *earlier.*
- *If you do not have a qualifying child, you cannot claim the child tax credit.*

**See the Form 5695 instructions to see if line 30 (nonbusiness energy property credit) applies for 2017.*

Part 1

1.	Number of qualifying children: 2 × $1,000. Enter the result.	1	2,000
2.	Enter the amount from Form 1040, line 38; Form 1040A, line 22; or Form 1040NR, line 37.	2	150,000
3.	**1040 Filers.** Enter the total of any— • Exclusion of income from Puerto Rico, and • Amounts from Form 2555, lines 45 and 50; Form 2555-EZ, line 18; and Form 4563, line 15. **1040A and 1040NR Filers.** Enter -0-.	3	
4.	Add lines 2 and 3. Enter the total.	4	150,000
5.	Enter the amount shown below for your filing status. • Married filing jointly - $110,000 • Single, head of household, or qualifying widow(er) - $75,000 • Married filing separately - $55,000	5	110,000
6.	Is the amount on line 4 more than the amount on line 5? ☐ **No.** Leave line 6 blank. Enter -0- on line 7. ☒ **Yes.** Subtract line 5 from line 4. If the result is not a multiple of $1,000, increase it to the next multiple of $1,000. For example, increase $425 to $1,000, increase $1,025 to $2,000, etc.	6	40,000
7.	Multiply the amount on line 6 by 5% (0.05). Enter the result.	7	2,000
8.	Is the amount on line 1 more than the amount on line 7? ☒ **No.** STOP You cannot take the child tax credit on Form 1040, line 52; Form 1040A, line 35; or Form 1040NR, line 49. You also cannot take the additional child tax credit on Form 1040, line 67; Form 1040A, line 43; or Form 1040NR, line 64. Complete the rest of your Form 1040, Form 1040A, or Form 1040NR. ☐ **Yes.** Subtract line 7 from line 1. Enter the result. *Go to Part 2 on the next page.*	8	

The state income and real estate taxes from Schedule A of $33,000 ($24,000 + $9,000) were added back for AMT purposes. Marty and Alice have AMTI of $139,850 ($150,000 AGI – $43,150 itemized deductions + $33,000 state income and real estate taxes). They owed total tax of $14,391, including $245 in AMT as shown on the following Form 6251.

For Example 44

Form **6251**

Department of the Treasury
Internal Revenue Service (99)

Alternative Minimum Tax—Individuals

▶ Go to *www.irs.gov/Form6251* for instructions and the latest information.
▶ Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0074
2017
Attachment Sequence No. **32**

Name(s) shown on Form 1040 or Form 1040NR	Your social security number
Marty and Alice	111-11-1123

Part I Alternative Minimum Taxable Income (See instructions for how to complete each line.)

1	If filing Schedule A (Form 1040), enter the amount from Form 1040, line 41, and go to line 2. Otherwise, enter the amount from Form 1040, line 38, and go to line 7. (If less than zero, enter as a negative amount.)	1	106,850
2	Reserved for future use	2	
3	Taxes from Schedule A (Form 1040), line 9	3	33,000
4	Enter the home mortgage interest adjustment, if any, from line 6 of the worksheet in the instructions for this line	4	
5	Miscellaneous deductions from Schedule A (Form 1040), line 27	5	
6	If Form 1040, line 38, is $156,900 or less, enter -0-. Otherwise, see instructions	6	( )
7	Tax refund from Form 1040, line 10 or line 21	7	( )
8	Investment interest expense (difference between regular tax and AMT)	8	
9	Depletion (difference between regular tax and AMT)	9	
10	Net operating loss deduction from Form 1040, line 21. Enter as a positive amount	10	
11	Alternative tax net operating loss deduction	11	( )
12	Interest from specified private activity bonds exempt from the regular tax	12	
13	Qualified small business stock, see instructions	13	
14	Exercise of incentive stock options (excess of AMT income over regular tax income)	14	
15	Estates and trusts (amount from Schedule K-1 (Form 1041), box 12, code A)	15	
16	Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6)	16	
17	Disposition of property (difference between AMT and regular tax gain or loss)	17	
18	Depreciation on assets placed in service after 1986 (difference between regular tax and AMT)	18	
19	Passive activities (difference between AMT and regular tax income or loss)	19	
20	Loss limitations (difference between AMT and regular tax income or loss)	20	
21	Circulation costs (difference between regular tax and AMT)	21	
22	Long-term contracts (difference between AMT and regular tax income)	22	
23	Mining costs (difference between regular tax and AMT)	23	
24	Research and experimental costs (difference between regular tax and AMT)	24	
25	Income from certain installment sales before January 1, 1987	25	( )
26	Intangible drilling costs preference	26	
27	Other adjustments, including income-based related adjustments	27	
28	**Alternative minimum taxable income.** Combine lines 1 through 27. (If married filing separately and line 28 is more than $249,450, see instructions.)	28	139,850

Part II Alternative Minimum Tax (AMT)

29 Exemption. (If you were under age 24 at the end of 2017, see instructions.)

IF your filing status is . . .	**AND line 28 is not over . . .**	**THEN enter on line 29 . . .**
Single or head of household	$120,700	$54,300
Married filing jointly or qualifying widow(er)	160,900	84,500
Married filing separately	80,450	42,250

If line 28 is **over** the amount shown above for your filing status, see instructions. — **29** — 84,500

30	Subtract line 29 from line 28. If more than zero, go to line 31. If zero or less, enter -0- here and on lines 31, 33, and 35, and go to line 34	30	55,350
31	• If you are filing Form 2555 or 2555-EZ, see instructions for the amount to enter. • If you reported capital gain distributions directly on Form 1040, line 13; you reported qualified dividends on Form 1040, line 9b; **or** you had a gain on both lines 15 and 16 of Schedule D (Form 1040) (as refigured for the AMT, if necessary), complete Part III on the back and enter the amount from line 64 here. • **All others:** If line 30 is $187,800 or less ($93,900 or less if married filing separately), multiply line 30 by 26% (0.26). Otherwise, multiply line 30 by 28% (0.28) and subtract $3,756 ($1,878 if married filing separately) from the result.	31	14,391
32	Alternative minimum tax foreign tax credit (see instructions)	32	
33	Tentative minimum tax. Subtract line 32 from line 31	33	14,391
34	Add Form 1040, line 44 (minus any tax from Form 4972), and Form 1040, line 46. Subtract from the result any foreign tax credit from Form 1040, line 48. If you used Schedule J to figure your tax on Form 1040, line 44, refigure that tax without using Schedule J before completing this line (see instructions)	34	14,146
35	**AMT.** Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 45	35	245

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 13600G Form **6251** (2017)

Example 45. Use the same facts as **Example 44,** except the tax year is 2018. Alice and Marty's AGI is again $150,000 but their state income tax and real estate tax expense of $33,000 is limited to $10,000. Their total itemized deductions of $20,150 ($2,650 medical + $10,000 taxes + $7,500 charitable contribution) is less than the standard deduction of $24,000. Personal exemptions are suspended for 2018, but they are entitled to a child tax credit of $4,000. In 2018, the Smiths are not subject to AMT because of the increased exemption amounts.

The comparison of tax between 2017 and 2018 follows.

	2017	2018	Increase/(Decrease) from 2017
AGI	$150,000	$150,000	$ 0
Deductions	43,150 Itemized	24,000 Standard	(19,150)
Exemptions	16,200	0	(16,200)
Taxable income	90,650	126,000	35,350
Regular tax	14,146	19,599	5,453
AMT	245	0	(245)
Tax before credit	14,391	19,599	5,208
Child tax credit	N/A	4,000	4,000
Total tax	14,391	15,599	1,208

The Smiths are not subject to AMT in 2018 but pay $1,208 more in total taxes. Their largest itemized deductions (real estate and state income taxes) were not allowed in 2017 because they were added back for AMT purposes. In 2018, they received no benefit from the state and local taxes because they took the standard deduction.

APPENDIX

2018 TAX BRACKETS AND RATES[136]

Single Taxpayers

If Taxable Income Is Over	But Not Over	The Tax Is	Of the Amount Over
$ 0	$ 9,525	10.0%	$ 0
9,525	38,700	952.50 + 12%	9,525
38,700	82,500	4,453.50 + 22%	38,700
82,500	157,500	14,089.50 + 24%	82,500
157,500	200,000	32,089.50 + 32%	157,500
200,000	500,000	45,689.50 + 35%	200,000
500,000		150,689.50 + 37%	500,000

Married Individuals Filing Joint Returns and Surviving Spouses

If Taxable Income Is Over	But Not Over	The Tax Is	Of the Amount Over
$ 0	$ 19,050	10.0%	$ 0
19,050	77,400	1,905.00 + 12%	19,050
77,400	165,000	8,907.00 + 22%	77,400
165,000	315,000	28,179.00 + 24%	165,000
315,000	400,000	64,179.00 + 32%	315,000
400,000	600,000	91,379.00 + 35%	400,000
600,000		161,379.00 + 37%	600,000

Married Individuals Filing Separate Returns

If Taxable Income Is Over	But Not Over	The Tax Is	Of the Amount Over
$ 0	$ 9,525	10.0%	$ 0
9,525	38,700	952.50 + 12%	9,525
38,700	82,500	4,453.50 + 22%	38,700
82,500	157,500	14,089.50 + 24%	82,500
157,500	200,000	32,089.50 + 32%	157,500
200,000	300,000	45,689.50 + 35%	200,000
300,000		80,689.50 + 37%	300,000

136. Rev. Proc. 2018-18, 2018-10 IRB 392.

Head of Household

If Taxable Income Is			
Over	But Not Over	The Tax Is	Of the Amount Over
$ 0	$ 13,600	10.0%	$ 0
13,600	51,800	1,360.00 + 12%	13,600
51,800	82,500	5,944.00 + 22%	51,800
82,500	157,500	12,698.00 + 24%	82,500
157,500	200,000	30,698.00 + 32%	157,500
200,000	500,000	44,298.00 + 35%	200,000
500,000		149,298.00 + 37%	500,000

2017 TAX BRACKETS AND RATES[137]

Single Taxpayers

If Taxable Income Is			
Over	But Not Over	The Tax Is	Of the Amount Over
$ 0	$ 9,325	10.0%	$ 0
9,325	37,950	932.50 + 15.0%	9,325
37,950	91,900	5,226.25 + 25.0%	37,950
91,900	191,650	18,713.75 + 28.0%	91,900
191,650	416,700	46,643.75 + 33.0%	191,650
416,700	418,400	120,910.25 + 35.0%	416,700
418,400		121,505.25 + 39.6%	418,400

Married Individuals Filing Joint Returns and Surviving Spouses

If Taxable Income Is			
Over	But Not Over	The Tax Is	Of the Amount Over
$ 0	$ 18,650	10.0%	$ 0
18,650	75,900	1,865.00 + 15.0%	18,650
75,900	153,100	10,452.50 + 25.0%	75,900
153,100	233,350	29,752.50 + 28.0%	153,100
233,350	416,700	52,222.50 + 33.0%	233,350
416,700	470,700	112,728.00 + 35.0%	416,700
470,700		131,628.00 + 39.6%	470,700

137. Rev. Proc. 2016-55, 2016-45 IRB 707.

Married Individuals Filing Separate Returns

If Taxable Income Is			
Over	But Not Over	The Tax Is	Of the Amount Over
$ 0	$ 9,325	10.0%	$ 0
9,325	37,950	932.50 + 15.0%	9,325
37,950	76,550	5,226.25 + 25.0%	37,950
76,550	116,675	14,876.25 + 28.0%	76,550
116,675	208,350	26,111.25 + 33.0%	116,675
208,350	235,350	56,364.00 + 35.0%	208,350
235,350		65,814.00 + 39.6%	235,350

Head of Household

If Taxable Income Is			
Over	But Not Over	The Tax Is	Of the Amount Over
$ 0	$ 13,350	10.0%	$ 0
13,350	50,800	1,335.00 + 15.0%	13,350
50,800	131,200	6,952.50 + 25.0%	50,800
131,200	212,500	27,052.50 + 28.0%	131,200
212,500	416,700	49,816.50 + 33.0%	212,500
416,700	444,550	117,202.50 + 35.0%	416,700
444,550		126,950.00 + 39.6%	444,550